



The Chief Executive,
the Honourable Tung Chee Hwa

The 1999 Policy Address

Quality People
Quality Home

Positioning Hong Kong for the 21st Century

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Madam President,

I. Introduction

1. In less than a hundred days, we will be entering a new century and a new millennium. Now is the time to carry forward what has been achieved and chart a new course for the future. In today's Policy Address, I shall review Hong Kong's development since the reunification and look ahead to the way forward in the next century. I hope that this will build a stronger sense of common purpose and that every one of us will join hands in building Hong Kong into a prosperous, attractive and knowledge-based, world-class city.

2. I would like to talk about three important subjects, namely Hong Kong's positioning, cultivating talents and building an ideal home. These topics are of direct interest to the whole community. I will also explain the SAR Government's thinking and policies regarding two subjects that we are all very concerned about, that is our future economic development and when the unemployment issue can be solved. Based on our experience over the past two years, I will also talk about subjects such as the rule of law, constitutional development, our thoughts on various reforms and the SAR Government's role in the economy.

3. As for issues and plans in other policy areas, the Policy Secretaries will present their own detailed reports to this Council and the public over the next several days. The main elements of what they will say are set out in the 1999 Policy Objective Booklets which will be published later today, together with this Policy Address.

II. *Looking Back on the Past Two Years*

4. Before I deal with the key issues, I would like to start with a review of the past two years.

A. *Two Major Challenges*

5. Responding to changing circumstances may well be the biggest challenge to any government. Over the past two years, Hong Kong has experienced two momentous changes. First, Hong Kong's reunification with the Mainland following the end of colonial rule and the practice of a high degree of autonomy under the unprecedented "One Country, Two Systems" concept. Second, the considerable readjustment to our economy triggered by the regional and even global effects of the Asian financial crisis. That these two changes took place almost simultaneously made them all the more difficult to manage.

Implementing "One Country, Two Systems"

6. On 1 July 1997, the SAR Government came into being under the principle of "Hong Kong people running Hong Kong". On the same day, we established the Court of Final Appeal in the spirit of true judicial independence. We also formed the Provisional Legislative Council and subsequently held elections for the first Legislative Council of the SAR. The high turnout rate of voters in the election last year attests to Hong Kong people's active participation in public affairs. All these fundamental changes have taken place smoothly. At the same time, there has been no change in our economic and legal systems. People's way of life has remained much the same. Freedoms, including that of speech and of assembly, have been safeguarded. Hong Kong remains a separate customs territory which co-operates directly with the international community in areas such as protecting intellectual property rights and fighting against drugs and smuggling. We also exercise our own stringent control on the import and export of strategic commodities.

7. The trend of mass emigration in the run-up to the handover has now reversed to a flow of returnees. Moreover, last year, even at the height of the regional financial turmoil, there were over 23 000 transactions in new private residential properties and over 33 000 in subsidised flats under the Home Ownership Scheme (HOS), Tenants Purchase Scheme, Flat-for-Sale Scheme and Sandwich Class Housing Scheme. In total, people committed over \$100 billion to buy their own homes here in Hong Kong. Even in the face of economic volatility, these families have cast their vote of confidence in Hong Kong's future with their assets and actions.

8. Despite the fact that we have no precedent to go by, our experience in implementing the "One Country, Two Systems" concept for the past two years shows it to be a viable system full of vitality.

Riding Out the Storm

9. The Asian financial turmoil started in Thailand on the day following our reunification celebrations. The scale and speed of its impact was much greater than expected and unmatched in the past fifty years. Although our financial regulatory regime is widely recognised to be of international standard, we were subjected to severe blows because of the inherent weaknesses in our economic structure, coupled with the fact that Hong Kong is the most open financial centre in Asia.

10. Our financial system came under immense pressure in the summer of 1998. We faced speculative attacks in local stock and foreign exchange markets. Confidence in our financial system was shaken. Under the circumstances, the SAR Government through the Hong Kong Monetary Authority (HKMA) made the decisive and timely decision to enter the markets and stabilised them. The decision was widely criticised at that time. In retrospect, exceptional though it was, we made the correct move. We have since adopted a series of measures to strengthen the linked exchange rate regime and our financial system's defences. This has consolidated Hong Kong's position as an international financial centre.

11. In fact, before the financial turmoil took its toll, structural problems already existed in Hong Kong's economy. Years of high inflation and negative real interest rates fuelled the "bubble economy". Asset prices hit historic highs in 1997, driving up costs and seriously undermining our competitiveness. This is the reason why I said at the Ceremony to Celebrate the Establishment of the Hong Kong SAR that we had to be alert to the dangers that lay ahead, even as we enjoyed calm and prosperity. The sudden arrival of the financial turmoil only speeded up the necessary readjustment of our economy.

B. Relieving Hardship and Accelerating Recovery

Relief Measures

12. Owing to the readjustment, Hong Kong's economy has suffered a downturn. The unemployment rate has reached its highest level in more than two decades. I am deeply concerned about the hardship suffered by those affected. The SAR Government has adopted a series of measures to stimulate economic growth and ease the burden on the community. We have given rebates on salaries, profits and property taxes, as well as on rates. We have also frozen various fees and charges. In all, these reductions total over \$40 billion.

13. We also took decisive action at the right time to suspend land sales for a period in a move to stabilise the property market. To spur demand in our economy and create jobs, we have pressed ahead with a number of major infrastructural projects. The total investment within five years will be \$240 billion. This will stimulate economic growth and lay the foundation for our long-term development.

Economic Recovery

14. Our economy is showing signs of turning the corner as the various relief measures steadily produce results and the Asian financial turmoil slowly subsides. Recently, there has been a gradual revival of consumer sentiment. Our export trade has picked up. The number of inbound tourists has been

on the rise. Stock and property markets have stabilised. The Mainland's economy has been growing steadily and will continue to provide numerous business opportunities. The Asian economies have improved, with Japan recording a positive growth for two consecutive quarters. The performance of European economies, in particular Germany, is also gradually improving.

15. However, in Hong Kong, real interest rates have remained on the high side. Bank credit, which has experienced negative growth over the past two years, still shows no sign of a significant rise. Economic growth in the United States remains strong, but there is concern that US interest rates are now subject to upward pressure. Moreover, some western investors still lack confidence in many of the economic reforms introduced in Asia. Nevertheless, broadly speaking, I am confident that the most trying times are behind us and that our economy will continue to pick up.

16. Our implementation of the “One Country, Two Systems” concept for the past two years has laid a sound foundation for the Hong Kong SAR's future development. We have kept our economic framework intact and consolidated Hong Kong's position as a financial centre in the face of the Asian financial turmoil. Overcoming the challenges faced in the past two years has not been easy. It has only been possible because of the perseverance, initiative and pragmatism shown by Hong Kong people and the ample trust and full support shown by our country.

C. Medium to Long Range Initiatives

17. You may recall that in my first Policy Address, I put forward the SAR Government's thinking on Hong Kong's future development. I also laid down a number of targets. For the past two years, Government bureaux and departments have been actively pushing ahead with initiatives. I would like to focus on several major areas.

Investing in Education

18. Education is fundamental to the future of Hong Kong. Starting from my first public speech when I took office, I have stressed repeatedly that education is a key policy area. We have made progress in many areas over the past two years. I will give a full account of our strategy for education later.

Caring for the Elderly

19. Care for the elderly was announced as one of my top priorities when I took office. We have a duty to give the elderly a sense of security, of belonging and of worthiness. Since its establishment, the Elderly Commission has dealt with many major issues. In response to its recommendations, the Government has pledged to provide 30 000 public rental flats for the elderly by the end of 2002. So far we have provided around 10 000 flats, a rate of progress in line with our target. Over the past 18 months, there has been an increase of 3 500 subsidised residential care places for the elderly, which has helped to reduce waiting time considerably. The service quality of private homes for the elderly has been improved over the past two years through the licensing system. In addition, multi-service centres and the home help service have been improved. Many elderly persons have attended literacy classes, computer classes and other interest group activities. Moreover, 6 000 elderly people have joined voluntary services. The Commission is now conducting a study on the quality of life of the elderly, so as to assess the demand for various services from the perspective of the elderly. To commemorate this being the International Year of Older Persons, hundreds of activities to promote respect and care for the elderly are being organised with Government support. At the end of next year, we will implement the Mandatory Provident Fund Scheme, a key initiative to provide retirement protection for the elderly in Hong Kong.

Meeting Housing Needs

20. I pledged right from the beginning of my tenure that I would do my best to address the housing problem of low income families. Despite the adverse economic conditions over the past two years, we have provided low-

cost public rental housing to 73 000 families. The waiting time for public rental flats has been reduced from seven to six years on average. I am confident that we should be able to achieve our pledge of further reducing this to three years by the end of the 2005-2006 financial year. Enabling more families to own their own homes is another pledge. Over the past two years, we have helped over 100 000 families fulfil their wish of purchasing their own flats through various home ownership schemes. This is a significant figure.

21. In the past two years, the SAR Government has established a land bank which now plays an important role in stabilising our property market. We have developed a highly transparent land disposal mechanism. This enables us to respond flexibly to short-term fluctuations in market demand, and to prevent sharp rises and falls in property prices from affecting people's livelihood. I am aware of the heavy financial burden on those citizens whose properties have become negative assets because of the financial turmoil. The Government clearly understands that the real estate sector remains a pillar of the economy. For most people in Hong Kong, a home is more than a place to live. It represents the most important investment in their lives.

D. Expanding the Economic Base and Promoting Employment

22. The SAR Government is deeply concerned about the employment problems faced by our citizens. Ever since the unemployment rate surged as a result of the financial turmoil, we have been working closely with the business and labour sectors in an attempt to increase job opportunities.

Supporting Small and Medium-sized Enterprises

23. Most Hong Kong companies are small and medium-sized enterprises (SMEs). They form the most dynamic sector of our economy and provide many job opportunities. They were hit hard by the financial turmoil. Many faced cash flow problems because of the credit squeeze. Last summer, the Government launched the \$2.5 billion Special Finance Scheme for Small and Medium Enterprises, to help alleviate their difficulties. This was a special

measure taken because of the severe circumstances caused by the financial turmoil. It has helped over 5 000 SMEs, and has enabled them to retain staff or reduce the number of workers having to be laid off. As our economy has only just turned for the better, some SMEs still have to overcome liquidity problems. Although we do not intend to inject more money into the Finance Scheme, we have decided to double the amount of guarantee for loans provided under the Scheme. We will also review the terms and conditions of the Scheme.

24. Loan guarantees by the Government can only be a short-term measure. In the longer term, we must consider more effective means to ensure that supporting services by relevant institutions meet the needs of SMEs. More importantly, a business-friendly environment should be created for new ventures. In particular, we should try to make it easier for these enterprises to secure finance for their business. This needs the banking sector to put more emphasis on the track record and business prospects of the borrowing enterprises in granting loans, instead of following the general practice of taking property as the main form of collateral.

Training People for Jobs

25. Last year, the Labour Department set up the Job Vacancy Processing Centre. The Centre's computerised system has provided information on 12 000 vacancies every month and helped an average of more than 4 000 people per month to secure jobs.

26. Despite our high unemployment rate, some jobs remain vacant. In view of this mismatch between demand and supply in the labour market, the Government has been providing training and retraining opportunities for the labour force. In the year 1998-99, the Employees Retraining Board (ERB) retrained nearly 70 000 people, with their re-employment rate reaching 70%. They were trained as information technology assistants, security guards, property attendants, domestic helpers and health care assistants, etc.

27. Among the unemployed, about 20 000 are young people between the age of 15 and 19. They account for more than 25% of those employed or seeking work in this age group. This is of deep concern to the Government.

Under an ideal education system, these young people should be able to continue with their studies. But in the current circumstances, we must take their unemployment problem seriously. The Vocational Training Council has launched two new courses which include English and Information Technology skills to provide about 4 000 new places for Form 3 and Form 5 school leavers. These courses will equip young people for employment or further studies. Recently, the Government has also launched the Youth Pre-employment Training Programme. Many organisations and companies have supported the Programme, which is well received by the trainees. We will conduct a full assessment of the operation of the Programme. If the results are satisfactory and resources are available, we will consider adopting it as a medium or long-term measure.

28. Those who have been badly affected by the economic downturn have my sympathy. I know that many people, though in full employment, have earned less since the financial turmoil began. Despite falling prices and concessions on Government fees and charges, they are still suffering from a reduction in net income. For the unemployed and under-employed, life is even more difficult. I know that Hong Kong people are accustomed to working hard and earning their own living, and do not like to depend on public assistance. But for those who face severe hardship in the economic downturn, their last resort is the safety net provided by the Government.

29. Hong Kong's economy is improving. I believe that the high unemployment rate caused by the Asian financial turmoil will come down gradually in due course. In the long run, however, we need to develop Hong Kong into a knowledge-based economy. If there are more education and training opportunities for people to better equip themselves with knowledge and skills, their ability to find jobs will be enhanced and their living standards improved. I am sure that Hong Kong people, who are adaptable, enterprising and energetic, will be able to scale new heights.

Investing in Infrastructure

30. During the past two years, we have launched a series of major infrastructural projects. They include the KCR West Rail Phase I, the MTR Tseung Kwan O Extension, and the expansion of boundary crossing facilities

at Lok Ma Chau. Projects that will be launched shortly include the KCR East Rail Extensions to Ma On Shan, Tsim Sha Tsui and Lok Ma Chau, and the Science Park at Pak Shek Kok. An estimated total of 46 000 jobs will be created in the next fifteen months as a result of these major infrastructural projects and other Public Works Programme items. Plans are also in hand for the next phase of infrastructural investment. Projects that are expected to commence later include Routes 7, 9 and 10, the Central-Wan Chai Bypass and the South East Kowloon Development Scheme. A total of over \$240 billion will be invested in these projects within five years, an amount exceeding the total investment in the Airport Core Programme. In addition, the Second Railway Development Study, which will be completed by the end of this year, will make recommendations on the feasibility and proposed timing of the construction of a fourth cross-harbour rail link, the East Kowloon Line, a second rail connection from Tai Wai to Kowloon, the North Hong Kong Island Line and the West Hong Kong Island Line. These projects will provide Hong Kong with a well planned and environmentally-friendly transport network as well as other basic facilities.

Air Cargo Hub

31. The new airport is one of our major infrastructural achievements. Our international air cargo throughput already ranks among the highest in the world. We are in a position to expand the market by taking advantage of the advanced facilities of our new airport to provide diversified freight services for clients from a more extensive area. To this end, we will implement a liberal policy for air cargo services so as to further develop Hong Kong into an international and regional air cargo hub. This, in turn, will create more jobs in the supporting service industries. A number of leading international air cargo carriers have expressed interest in expanding their operations in Hong Kong.

Promoting Tourism

32. Tourism is a major driving force behind Hong Kong's economic development, and can directly or indirectly create a large number of jobs. To strengthen the co-ordination of the tourism industry, the Government has

appointed the first Commissioner for Tourism. We are also reviewing our strategy on the development of tourism and encouraging better co-operation among the various parties. We have announced a series of schemes concerning new tourist attractions, which we are now implementing in stages. Regarding the development of an international theme park at Penny's Bay on North Lantau, we continue to make good progress in our negotiations with the Walt Disney Company. Our common target is to complete the negotiations before the end of October.

Promoting Innovation and Technology

33. Innovation and technology are the major driving forces of economic growth. The Government is now implementing the recommendations detailed in the two reports submitted by the Commission on Innovation and Technology, chaired by Professor Tien Chang Lin. They include the setting up of the \$5 billion Innovation and Technology Fund; an investment of over \$2 billion in the coming ten years for establishing the Applied Science and Technology Research Institute which will focus on mid-stream research; the setting up of a high-level co-ordination framework and standing advisory committee; and the admission of people whose technological expertise we need. Local businesses have responded positively by putting forward proposals, such as the Cyberport and other projects involving innovation and technology. Overseas investors have also indicated their strong interest in such endeavours. Before the end of the year, the Hong Kong Stock Exchange will launch the Growth Enterprise Market which will serve as a new capital-raising channel for innovation and technology ventures.

Changes in Mindset

34. People from various sectors have told me that the speculative atmosphere created by the formerly prevalent "bubble economy" had seriously undermined people's work ethics and attitudes towards learning. Today, due to the efforts of the SAR Government and many who care for the future, more and more entrepreneurs and citizens have come to support a view that I have repeatedly emphasised: to put Hong Kong back on the road to prosperity, we must widen our economic base and promote wider

application of innovation and technology in order to add value to our products and services. It is now generally realised that economic growth cannot come from excessive reliance on asset inflation. Instead, people have begun to recognise the importance of innovation and technology, and we have witnessed a gratifying change in the community's mindset, which in itself marks a possible turn for the better. I am sure that our economy will scale new heights when learning, pragmatism and creativity prevail. This is the reason for my optimism for the future of Hong Kong.

E. Summing Up

35. In the past two years, we have faced together the hardships brought about by the Asian financial crisis. The worst is now behind us. The SAR Government has delivered on its pledges. I believe that given the spirit of close co-operation that exists between the Government and the community, we can all look forward to the start of the new century with confidence.

III. Clear Positioning

A. Long-term Strategy

36. The SAR Government, while carrying out its daily business, has at the same time undertaken long-term planning for Hong Kong. The Executive Council and various policy bureaux have taken the initiative to explore the way forward. The Commission on Strategic Development, which was established early last year, studied trends of global and regional development, assessed different scenarios and provided valuable input for the formulation of long-term policies. It will issue a report on the study by the end of this year.

37. Hong Kong's reunification with the motherland has removed the problem of limited planning horizons. We are now able to start thinking long-term. Moreover, given that Hong Kong's external and internal circumstances have changed so much in recent years, long-term strategies have become essential.

B. Three Momentous Changes

38. As I have pointed out earlier, we have successfully dealt with two major challenges over the past two years. Now, as we move towards a new era, we are faced with three momentous changes. First, the world's economy is becoming more globalised as a result of free trade and advances in information technology. Second, our country's success in reform and the implementation of open-door policies in the last two decades has brought about changes in the economic relationship between Hong Kong and the Mainland. Third, Hong Kong's economy is now undergoing another round of economic restructuring. New challenges and opportunities are emerging. Let me outline these three changes.

Globalisation of the World's Economy

39. International trade has become increasingly open in the past 50 years. The conclusion of the General Agreement on Tariffs and Trade and the subsequent establishment of the World Trade Organisation (WTO) reflect the progressive removal of trade barriers relating to goods and services. Technological advances in communications and transportation have drastically reduced the distance between markets. Transaction procedures have been streamlined. Suppliers from all corners of the world now engage in keener and more direct competition. We will be able to compete in the world market successfully only if we can provide a wide range of high quality, innovative and technologically sophisticated products and services, and have good access to information.

Rapid Economic Development on the Mainland

40. Two decades of rapid economic growth on the Mainland have continued to narrow the gap between Hong Kong and the key cities there. The Mainland has a wealth of talented people. Their knowledge and capabilities in many areas have advanced rapidly as a result of extensive international exposure in recent years. Their diligence and frugal lifestyle also give them a competitive edge. Unless we consciously improve, our lead will disappear. We are faced with great challenges. But we are also seeing great opportunities. According to the World Bank, China's gross national product currently ranks 7th in the world, and will rise to 2nd or 3rd place by 2020, with an enormous cumulative growth in the interim. Nothing can stop China's advance. If Hong Kong can play an active part in the process, not only will we make a contribution to our country, but we will also benefit.

Economic Restructuring

41. With the bursting of the asset price bubbles in some Asian economies during the financial turmoil, competition in the region has intensified. Hong Kong cannot count on a recovery led by asset inflation. Also, some labour-intensive service industries have followed the lead of the manufacturing sector and moved to the Mainland or overseas. These together

with globalisation and the development of the Mainland's economy, are leading to another phase of economic restructuring for Hong Kong. Operating costs in Hong Kong have now lowered, and many firms have implemented internal restructuring to enhance productivity. But we must develop and strengthen our advantages further, turn increasingly to innovative, knowledge-intensive economic activities, make the best use of information technology, reduce our costs further to enhance our competitiveness, and restructure our economy in the most advantageous direction. Failing that, we will lose out to our competitors and go into decline. The Government is acutely aware of the competitiveness issue, and everything that it does in the economic sphere is intended to improve our competitiveness.

42. Many cities in the Asia-Pacific region are growing very quickly and catching up fast. We cannot continue to rely on past strengths. The current situation calls for urgency in action. We must stay alert, grasp opportunities and respond positively. We must face the new reality: Hong Kong must position itself firmly and clearly in the global economy.

C. A World-class City

43. I have on many occasions during the past two years spelled out our long term developmental objectives, the purpose of which was to establish a clear positioning for Hong Kong. Drawing upon the advice of the Commission on Strategic Development, I said in last year's Policy Address that I firmly believed that Hong Kong should not only be a major Chinese city, but could become the most cosmopolitan city in Asia, enjoying a status comparable to that of New York in North America and London in Europe. Both New York and London are cosmopolitan cities with great depth of talent in culture, technology and education. They are vibrant economies and possess the financial strength to serve the region and the world at large in areas such as finance, trade, tourism, information industry and transport, while being home to numerous multi-national enterprises. Their solid economic foundation has made it possible for their people to enjoy a relatively high average income.

44. Hong Kong already possesses many of the key features common to New York and London. For example, we are already an international centre of finance and a popular tourist destination, and hold leading positions in trade and transportation. These are all pillars of our economy. If we can consolidate our existing economic pillars and continue to build on our strengths, we should be able to become world-class. Then, like New York and London, we will play a pivotal role in the global economy, be home to a host of multi-national companies and provide services to the entire region.

45. On the other hand, we must admit that Hong Kong lags behind other international world-class cities in many respects, in particular human capital and living environment. However, we should not forget our unique advantages. We have the thriving Mainland next to us. We are a melting pot for Chinese and Western cultures. We are a highly liberal and open society. Our institutions are well established. With such a strong foundation, we should be able to build on our strengths and develop modern and knowledge-intensive industries, erect new pillars in our economy and open up new and better prospects.

D. Unique Advantages

Strengthening Ties with the Mainland

46. Our economic link with the Mainland is our greatest advantage in developing Hong Kong into a world-class city. China's vigorous economic growth and intensification of reforms offer us new opportunities. Like the manufacturing industries, which moved their production to China in the 1980's, the local service sector has started extending into the Mainland's economy in various forms, creating yet another win-win situation. There is huge potential for co-operation in the commercialisation of new and high-tech innovations, as well as in the development of new industries such as Chinese medicine. The symbiotic relationship between Hong Kong and the Mainland is expected to gain momentum with the admission of China to the WTO. As services are one of Hong Kong's strengths, we can break new

ground and work with the Mainland in the development of her export-oriented industries, and in the use of information technology for establishing new modes of business and industrial operations.

47. To support such long-term economic co-operation, an inter-departmental group chaired by the Financial Secretary has been set up to liaise with relevant Central Government authorities and experts on matters related to China's admission to the WTO. Its purpose is to get acquainted with the progress of, and the arrangements for, the opening up of the Mainland market. The group also maintains contact with local business and professional bodies so that they too can better understand the opening-up process and more readily assess market trends. This will enable them to capitalise on business opportunities. Additionally, the State Council's Ministry of Foreign Trade and Economic Co-operation and the SAR Government's Trade and Industry Bureau have agreed to set up a joint committee to strengthen communication on economic and trade issues.

Joint Development of the Pearl River Delta Region

48. After two decades of rapid development, the whole of Guangdong Province, including the Pearl River Delta region and Shenzhen, has accumulated great potential for further economic expansion. Following Macau's reunification with China at the end of this year, the 50 000 sq. km. region encompassing Guangzhou, Hong Kong, Macau, Shenzhen and Zhuhai will become a more integrated regional economy. More Hong Kong people will invest, spend, acquire property, travel and settle in the region. The increase in economic strength of the region as a whole will in turn provide impetus for Hong Kong's further growth. Under the concept of "One Country, Two Systems", we will together explore ways to allow the free flow and pooling of manpower, goods, capital and other resources in response to economic forces, so as to rise to a higher level.

49. To cater for the increasingly heavy demand for cross-boundary traffic between Guangdong and Hong Kong, the Transport Bureau is implementing a series of immediate measures aiming at expanding the passenger and freight handling capacity of existing rail and road crossings. The Hong Kong-Mainland Cross-Boundary Major Infrastructure Co-ordinating Committee is

actively working on the design and implementation of new cross-boundary links, such as crossings, marine terminals, shipping routes, railways and bridges. In the case of railways, these include the Sheung Shui to Lok Ma Chau Spur Line, which on completion in 2004 will link up with Shenzhen's metro system. As for road improvements, upon the completion of the Shenzhen Western Corridor bridge, the Route 3 network will be extended to link up with Yuen Long Highway, Route 10 and the Deep Bay Link. Infrastructure aside, the SAR Government is also actively considering ways to streamline cross-boundary customs clearing procedures. As we all know, the Hong Kong-Shenzhen boundary is already one of the busiest land crossings in the world. Traffic and trade between Hong Kong and the Mainland will thrive more than one can imagine, once these new projects and streamlined procedures are put in place.

Multitude of Tasks

50. I have just outlined to you the issue of positioning Hong Kong. I mentioned that Hong Kong, other than being an important city of China, should also be developed into a world-class city - the New York and London of Asia. In comparing Hong Kong with these two world cities, our sole purpose is to inspire everyone to work harder to achieve greater economic development, so that we will enjoy a richer cultural life and a high standard of living in the future. I also talked about our strengths and our approaches to achieving these objectives. Our per capita income is on a par with other affluent economies. Our infrastructure is comprehensive. The rule of law is secure, and we have well-established regulatory and management systems. All of these are highly prized by many multi-national corporations. However, we still need to make progress in other areas if we want to see Hong Kong develop into a knowledge-based society and scale new economic heights, and become a place that we take greater pride in calling home.

51. Lying ahead of us are many tasks, the most urgent of all being the nurturing of and attracting to Hong Kong the world's most talented people, as well as achieving sustainable development and creating a first-rate living environment. Among the many issues that the Government will tackle next year, the focus will be on human capital and the environment. I would like to talk about human capital first.

IV. Cultivating Talents for a Knowledge-based Society

52. The quality of our people has a direct bearing on Hong Kong's competitiveness in the next century. It determines whether we continue to develop economically, our wealth continues to grow and our lives continue to improve. To realise our vision of Hong Kong as a world-class city with a thriving economy and an affluent and culturally rich society, it is first and foremost necessary to cultivate and retain a critical mass of talented people. I will now deal with a number of issues related to developing our human capital: education, youth development and admission of talented people.

A. The Need for Education Reform

53. In my last two Policy Addresses, I devoted much attention to education. In my address today, education remains a key issue because in the next century, knowledge-based economies will take the lead in the world. It is imperative that our education system keeps pace with the times.

54. Thanks to years of expansion in education opportunities, Hong Kong people have attained a reasonably good educational level. On the whole, the performance of Hong Kong students studying abroad is on a par with their classmates, both local and foreign. And quite a number of the Honourable Members and leading figures in our community have attended secondary school or university in Hong Kong. All these speak for the achievements of our educators and officials responsible for education. However, times change, and the world moves on. We need to review and continuously improve our education and training system, just as other advanced communities are doing. I have thus asked the Education Commission to assist the Government in conducting a comprehensive review of our existing education system. The public consultation exercise on the aims of education held by the Commission this January generated an enthusiastic response from the community.

55. I support many of the suggestions made by our community as to how our education system might be reformed. For instance, many educators maintain that education should go beyond imparting academic knowledge to our students. Rather, it should aim at an all-round development of our children, including development not only in knowledge but also in personal character, skills, attitude and physique. In addition to normal academic studies, our students need to learn how to become responsible and caring individuals. There are suggestions that we review the curriculum, reduce the number of subjects and integrate the formal curriculum with extra-curricular activities so as to give our students a well-rounded education and to develop their intelligence and creativity.

56. In addition, the focus of our education system should be on cultivation, not elimination, and examinations should not be reduced to a mechanism of producing losers. Even for those who fail exams, there should be proper channels for continuous learning in our system. Education should not be limited to formal schooling. Rather, it should include on-the-job training and continuing education. I consider it necessary to put in place specific measures to ensure that all our young people, regardless of qualifications and abilities, are given the opportunity of continuous learning.

57. There should also be better interfacing between the various stages of formal education, for example, between primary and secondary education, and between secondary and higher or professional education.

58. As for early childhood education, which lays the foundation for effective learning, our top priorities are to enhance the professionalism of teachers and to ensure that the curriculum and teaching methods are conducive to children's healthy development.

59. If Hong Kong wishes to become a knowledge-based economy in the information age, we must continue to innovate and change. This is why we must embrace "life-long learning". School education should aim at fostering in students an interest and an ability in learning so that they are able to acquire knowledge throughout their lives and respond effectively to changing circumstances.

60. The Education Commission is now consulting the public on our entire education system. In this second round of consultations, it is inviting views on the approach for reform and its initial thinking on the school curricula, education systems, assessment methods and the interface between the various stages of education. I have noted the public's initial support for the proposals and the wish that these be implemented as soon as possible. I expect the Education and Manpower Bureau to give me the final report by the middle of next year when the Commission has completed the whole review. I hope to see the early implementation of those recommendations receiving general public support.

B. Progress of Improvement Measures

61. I am pleased to see the progress made by the Government in raising the quality of education and improving various important areas of the system over the past two years, while we consult the public on education reform. Initiatives have been implemented as a foundation for the way forward. Let me now give a brief account.

Basic Education

Introducing Administrative Reforms

62. Our policy is to delegate full authority and responsibility to schools and their front-line staff as far as possible. The Education Department has started devolving administrative and financial responsibilities to schools in stages. This is resulting in a leaner departmental management structure. At the same time, we are implementing measures to strengthen school-based management and enhance the schools' accountability.

Kindergarten Education

63. We have pledged that, beginning from September 2004, all new kindergarten principals would have to complete the Certificate in Kindergarten Education course. In order to improve the quality of our kindergarten education at a faster rate, we will advance this target by two years to September 2002.

Improving the Learning Environment

64. Whole-day primary schooling is an important part of our efforts to raise the quality of education. It is important because it allows teachers more time to focus on giving the students an all-round education in ethics, intellect, physique, social skills and aesthetics. At the same time students are able to enjoy a better school life. We have made good progress in providing whole-day schooling for primary school students. The percentage of primary students enjoying whole-day schooling has risen from 19% in 1997 to 32% this year. By September 2002, the percentage will have doubled to reach our earlier interim target of 60%. We have set the long-term target of achieving whole-day schooling for almost all primary school students by the 2007-2008 school year.

Quality Education

65. The Government set up a \$5 billion Quality Education Fund last year to support school-based innovative practices and to improve the quality of teaching and learning. To date, we have granted some \$580 million to over 1 000 projects, benefiting more than 600 000 kindergarten, primary and secondary students. The projects have improved the effectiveness of both teaching and learning, and have encouraged the teachers and principals involved to try out more creative ways of teaching.

Promoting Information Technology in Education

66. Since the publication of the five-year strategy on information technology in education last November, the Administration has been implementing the measures in stages. We have offered schools cash grants for

purchasing computers, provided 120 schools each with an information technology co-ordinator, and begun information technology training for teachers. There has been a change in the education sector's mindset towards the use of information technology. Initially they had reservations. Now they embrace the idea and are responding positively. Within the next five years, our school children will be able to master the general application of information technology, connect to the Internet, and be equipped to become life-long learners with inquiring and creative minds.

Upgrading the Quality of Teachers

67. We are progressively upgrading all pre-service training courses provided by the Hong Kong Institute of Education for primary and secondary school teachers, from sub-degree to degree or higher level. The first batch of students will graduate in 2002. Other tertiary institutions also offer degree courses in education. By 2004, we will have upgraded all the pre-service training programmes for primary and secondary school teachers to degree level.

68. The Government will also provide comprehensive training programmes for school principals. The first programme is scheduled to commence in the 2000-2001 school year. Thereafter, all newly-appointed principals will have to complete the first part of the programme prior to appointment.

Improving Language Ability

69. It is the SAR Government's goal to train our people to be truly biliterate and trilingual. To ensure that all teachers achieve a necessary standard of language ability, we have established language benchmarks for those teaching English in junior secondary schools and Putonghua in primary schools. The relevant training programmes and examinations will start next year. Thereafter, newly-appointed teachers must pass the language benchmarks. By 2005, all serving language teachers must have attained the

benchmarks. That is, starting from next year, there will be an objective mechanism to ensure that language teachers have the necessary standards and the ability to teach in the relevant languages.

70. Chinese is one of the most widely used languages in the world. It is also an important tool for exploring our own cultural heritage. We must continue to improve the Chinese standards of our students, both written and spoken.

71. Mother-tongue teaching was introduced to help students learn more effectively. Most secondary schools adopted mother-tongue teaching in September 1998. Since then, we have found that students have improved in both their cognitive and learning abilities. According to the feedback from some schools, their Form 1 students receiving mother-tongue instruction have achieved better results in all subjects, including English.

72. As a cosmopolitan city, we must ensure that more people can use English and use it better. The business sector has been complaining of a decline in the English standards of our younger generation since the early 1990's. In prompt response to their proposals and as a short-term measure, next year the Government will join hands with the Standing Committee on Language Education and Research (SCOLAR), and our industrial and business sector in launching a territory-wide publicity campaign to promote the use of English. The aim will be to enhance the English standards of the workforce and our students. In the long term, we will continue to improve the quality of our English teachers and the method of instruction in schools to ensure that students master basic language skills at an early stage of their education. Since early 1998, we have been providing at least one additional native-speaking English teacher for each secondary school. I am pleased to note that positive results have been achieved in the past year.

Greater Diversity in Schools

73. I have pledged to provide support for the development of quality private schools and Direct Subsidy Scheme schools, as a move to introduce greater diversity and to give parents more choice. Recently, the Government granted two sites for the operation of non-profit-making private schools. In addition, four school premises have been allocated for the establishment of

non-profit-making schools under the Direct Subsidy Scheme. We will continue to allocate resources in the coming year to support the development of such schools. I hope that more aided schools will join the Direct Subsidy Scheme, so that there will be even greater diversity in our education system.

Tertiary Education

Pursuit of Excellence

74. We have always encouraged tertiary institutions to strive for greater achievements and to turn their special strengths into areas of excellence of international standard. The institutions have given an enthusiastic response. The University Grants Committee received a total of 41 proposals on the development of “areas of excellence”. The three chosen propose strategies for developing information technology, biotechnology, and economics and business strategy as Hong Kong’s areas of excellence. The University Grants Committee will provide over \$120 million in total over five years to the relevant institutions for implementing their proposals.

Reforming the Admission System

75. Local tertiary institutions have started to admit students with exceptional performances in non-academic fields in order to encourage a more balanced development of our students. This year, a total of 277 students who excelled in non-academic fields were admitted by eight institutions. I look forward to seeing further reforms in the admission system that tie in with the future development in Hong Kong’s education.

Life-long Learning

76. In my last Policy Address, I put forward the concept of “life-long learning”. I am glad to see that it has gained extensive support in the past year and has been chosen as the theme of the second phase of consultation conducted by the Education Commission.

77. Our higher education institutions and the Open University are each adopting different measures to promote life-long learning. At present, over 200 000 Hong Kong citizens are already engaged in some form of further

studies in these institutions. To encourage this trend, we have made available various forms of financial support. Starting from the 2000-2001 academic year, we will further extend the Non-Means Tested Loan Scheme to include students on self-financing courses in Government-funded tertiary institutions and post-secondary courses in the Hong Kong Institute of Vocational Education. This will benefit some 80 000 students.

Collective Commitment to Education Development

78. It is our target to provide quality education in Hong Kong. Progress in the past two years has generally been in line with our expectations. I am glad that the community as a whole agrees that education is pivotal to Hong Kong's future development and that our education system needs a revamp. Next year, we will have a more comprehensive blue-print for education reforms and concrete plans for carrying them forward. However, it needs to be pointed out that education reform is a long-term undertaking. Many initiatives, albeit supported by the community at large, must be implemented step by step. It takes time to achieve the desired results. Moreover, if we are to provide more learning opportunities, to recruit more teachers with higher academic qualifications, and to initiate reforms in each and every aspect of the education system, we will need substantial new resources. The Education Commission has rightly pointed out that good education is the collective responsibility of the entire community. The Administration will provide its share of resources for education and ensure their efficient allocation. At the same time, the public will need to play a bigger role in shouldering its share of the responsibility. I hope that the community will come up with more suggestions on this aspect during the Education Commission's consultation, so that we can work in concert and more quickly attain our goals for education.

C. Young People

79. Youth development has always been one of my major concerns. Whenever I read about outstanding young people like Kwong Lai Yin who sacrificed herself to save others and Chan Man Fong and Yeung Yan Yan who have attained remarkable academic achievements despite their physical disability, I am very touched and have great admiration for them. On the

other hand, I am deeply distressed to read news such as large numbers of young students obtaining poor grades in public examinations, juveniles involved in gang activities, and the youth unemployment rate reaching 29%. I believe most people will share my feelings.

80. As a responsible government, we are striving to improve our education system in such a way that our younger generation will be well-guided in their intellectual and moral development. I have given you an outline of the relevant measures. I am confident that after the reform, our education system will better meet their needs.

81. Healthy development of our youth depends not only on school education. Family education also has a very important role to play. Children are greatly influenced by parents' every word and deed. Problematic children are often those without good parental care. Most parents love their children. But I have heard from many that they frequently encounter difficulties which they fail to solve in bringing up their children. There are also many who have to earn a living and cannot afford the time to attend to their children. To provide greater support to parents, we will devote more resources to promoting family education to help parents learn about how to guide their children, and to organising activities to foster a closer parent-child relationship.

82. Presently, various youth services are provided by the Education and Manpower Bureau, the Health and Welfare Bureau and the Home Affairs Bureau. I have asked these three bureaux to collaborate in reviewing their resource utilisation and co-ordination with a view to providing, more efficiently, services that are better tailored to the needs of our young people.

83. Of course, there is a limit to what parents and the Government can do to create a decent environment for the growth of our younger generation. The prevailing social climate exerts great influence on young people. Many sociologists have pointed out that young people growing up in a materialistic society full of sex and violence may have their values distorted, rendering them unable to tell right from wrong. They can thus easily go astray. The juvenile gang problem that worries people in recent years also has a lot to do with our social climate. How then should we turn the tide, inculcate correct

values, and make Hong Kong a good place for parents to bring up their children? This is an important issue on which the future of Hong Kong hinges, and is worthy of our thoughts and efforts. I hope that parents, teachers, youth workers, the media and other sectors of the community will work together with the Government for the sake of our younger generation. I also hope that the young people will play their own part and work hard for a bright future. Hong Kong remains a city of opportunity. With hard work and perseverance, even dreams that may seem unattainable can come true.

D. Admission of Talented People

84. Great effort has been devoted to cultivating local talents. In addition, we should do what we can to attract talented people from elsewhere to come to Hong Kong. If we want to have a vibrant economy and broaden our economic base, we must have enough people of the right calibre in our workforce. It is a fact that there are certain experts that Hong Kong lacks and the Mainland can provide. We have therefore devised a scheme to admit talented Mainlanders. The SAR Government has already agreed on the specific arrangements under this scheme with the Central Government. Applicants must be people who excel in their own fields and possess the technological know-how and experience most needed in Hong Kong. The aim is for them to help us develop an economy that has a greater high-tech and higher value-added content. Details of the scheme and the selection criteria will be announced by the Secretary for Security shortly.

E. Summing Up

85. People are our most valuable asset. We are committed to nurturing local talents through an improved education system. In addition, we will continue to open our doors to talented people from all countries and regions so that Hong Kong will become even more competitive. What we are doing in these areas is pivotal to Hong Kong's future development. I shall now come to another equally important issue: the quality of our living environment.

V. *Making Hong Kong an Ideal Home*

86. As we set out to build Hong Kong into a world-class city, we should first endeavour to make Hong Kong a clean, comfortable and pleasant home of which we are proud. A real change in the quality of Hong Kong's environment needs more than just cleaning up litter and enforcing environmental laws, it requires a fundamental change of mindset. Every citizen, every business, every government department and bureau needs to start working in partnership to achieve what is known as "sustainable development". Putting it in simple terms, sustainable development for Hong Kong means:

- finding ways to increase prosperity and improve the quality of life while reducing overall pollution and waste;
- meeting our own needs and aspirations without doing damage to the prospects of future generations; and
- reducing the environmental burden we put on our neighbours and helping to preserve common resources.

87. Hong Kong is richly endowed by nature. Past efforts at building our city have contributed to the beauty of our landscape. Hong Kong, the "Pearl of the Orient", is indeed worthy of its name. However, our environment has been deteriorating due to rapid population growth and economic development, the community's lack of environmental awareness, and the fact that our commitment and long-term planning for environmental protection have not kept pace with changing circumstances. Pollution has not only tarnished Hong Kong's image as an international city, but also greatly affected our health. It is high time we faced up to the problem, and do all we can to improve our living environment.

88. Here I would like to talk about three major environmental problems and three major tasks in building a quality living environment for our citizens. I shall also outline the Government's current objectives, strategies and measures.

A. Air Pollution

89. The Government's air quality objectives spell out the maximum safe levels of major air pollutants in the ambient air. Such standards are similar to those adopted in the United States. Of all the pollutants, respirable particulates pose the greatest threat to our health. The average level of respirable particulates in Hong Kong, as recorded at most of the air quality monitoring stations is nearly 50% greater than New York, and consistently approaches or exceeds the maximum level laid down in our objectives. As regards the other major pollutants, nitrogen oxide levels are on the rise and often approach or exceed the maximum levels. Ozone levels, which were relatively low in the past, have increased significantly in recent years. This problem, which is affecting our health, is already serious and may get worse. Hence we should no longer delay in taking action against air pollution.

90. The SAR Government is keenly aware of the severity of the problem. After careful deliberation, we have drawn up a series of new measures. The objectives are to reduce the total emissions of respirable particulates emitted from vehicles by 60% by end 2003, and 80% by end 2005, by which time nitrogen oxide emissions should also be reduced by 30%. When we meet these initial targets, our air quality will compare favourably with that of major cities in developed countries such as New York and London, and the respiratory health of our citizens will substantially improve.

91. To achieve these goals, we need the right solutions for tackling air pollution. The deteriorating air quality in Hong Kong is mainly due to pollution at street level caused by vehicle emissions and regional air pollution caused by economic activities throughout the Pearl River Delta region including Hong Kong. The latter problem needs to be solved on a regional level and I shall return to it later.

92. In Hong Kong, vehicle emissions are often trapped by high-rise buildings and hilly surroundings. Although we have an efficient public transport system which has kept car ownership at a relatively low level, the average road utilisation rate is about four or five times higher than that in Japan or the UK. Moreover, 135 000 or nearly 30% of our existing fleet of

half a million vehicles are diesel-powered, compared with only 17% in Singapore and 10% in the UK. Diesel vehicles account for nearly 70% of the total distance travelled on our roads.

93. As a result, diesel vehicles account for 98% of the respirable particulates and 85% of the nitrogen oxide emitted by vehicles. Overall, they are responsible for 52% of the respirable particulates in the air throughout the urban area, and for 60% of ambient nitrogen oxide. Therefore, the key to prevent and abate air pollution at street level is to control the use of, improve and replace diesel vehicles.

Comprehensive Control on Diesel Vehicles

94. More stringent standards for new diesel vehicles, known as Euro standards, were introduced as early as 1994. However, piecemeal measures cannot solve the problem completely. We have thus drawn up a comprehensive set of policies to be implemented now to combat pollution caused by diesel vehicles, including taxis and light buses as well as light, medium and heavy diesel vehicles.

95. At present, there are 18 000 diesel taxis in Hong Kong. We have decided to stop importing diesel taxis after next year. To encourage early replacement of the existing taxis, we will be providing grants at an appropriate level to assist owners to switch to LPG vehicles. We are proposing to the taxi trade that all diesel taxis over seven years old be taken off the road by 2003 and that no diesel taxis will be allowed after 2006.

96. There are at present 6 000-odd diesel light buses in Hong Kong. Starting in April next year, we will launch a six month trial scheme for LPG light buses. If the results are satisfactory, we intend to provide financial assistance similar to that for the taxi trade to encourage operators to switch over to LPG light buses from 2001.

97. It is also important that we provide adequate infrastructure for the operation of LPG taxis and light buses. The Government is offering LPG suppliers incentives to construct a network of LPG filling stations and is organising training courses for LPG vehicle mechanics.

98. Apart from diesel light buses, Hong Kong has another 70 000 diesel light vehicles, 50 000 of which are of pre-Euro standard. On a trial basis, particulate traps will be installed in these pre-Euro-standard vehicles to reduce pollution. If the results are satisfactory, we intend to provide grants to owners in 2001 for the installation of these devices. In the longer term, we will consider the need to replace all diesel light vehicles.

99. There are 12 000 diesel buses and almost 40 000 other medium and heavy diesel vehicles in Hong Kong. Half of these buses and over 60% of the medium and heavy diesel vehicles, totalling some 30 000, are pre-Euro standard vehicles. Installing catalytic converters is the best way to reduce emissions from these old diesel vehicles. The franchised bus companies have started to install these devices in their older vehicles. We will be conducting trials to identify catalytic converters that are suitable for other types of medium and heavy diesel vehicles, and we hope to draw up specifications by 2001. Grants will be provided for owners of these old diesel vehicles to install a suitable catalytic converter.

100. A total of \$1.4 billion has been set aside as grants to owners of taxis, light buses and other pre-Euro standard diesel vehicles for the purpose of switching over to LPG, installation of particulate traps and the fitting of catalytic converters. These grants will be made available after consultation and Legco approval. I am sure this major expenditure will be worthwhile. It also serves to underline our commitment to improve air quality.

101. Upon implementation of the scheme, the installation of particulate traps or catalytic converters will be required for the registration renewal of all pre-Euro standard diesel vehicles. In addition, like most European countries, we will be adopting the more stringent Euro III emission standard as from 2001. From that year, no new diesel vehicle will be imported unless it complies with this standard. We will also tighten our control over the sulphur content of diesel fuel.

Stronger Actions against Smoky Vehicles

102. The Environmental Protection Department is expanding its smoky vehicle spotter programme and has been using more sophisticated testing equipment for smoky vehicles since last month. Starting from next year, all commercial vehicles will be required to have their emission control equipment tested every year. Meanwhile, the Police have stepped up enforcement action against smoky vehicles. Later this month, we will put before this Council legislation to increase the fixed penalty for smoky vehicles to \$1,000. When more facilities, technicians and equipment are available for maintenance, the Government will consider whether to further increase the fine. In addition, the Customs and Excise Department is stepping up action against the illegal importation of diesel fuel with higher levels of pollutants. We will also consult the public shortly on the control of idling engines.

Pedestrianisation

103. We are planning for pedestrian precincts on both sides of the Harbour and in a number of new development areas. We also intend to expand the pedestrian zones in crowded and more polluted parts of our city so as to reduce pollution caused by vehicle emissions. The Transport Department has commissioned consultants to carry out relevant studies in various districts, including Causeway Bay, Tsim Sha Tsui and Mong Kok. Our tentative plan is to designate certain streets with heavy pedestrian flow as pedestrian priority zones, for example, in the vicinity of Times Square in Causeway Bay, Peking Road in Tsim Sha Tsui and Nelson Street in Mong Kok. We hope to start consulting the public in the next few months, and to implement these plans from the middle of next year.

New Comprehensive Transport Strategy

104. Nevertheless, in the long run, if the number of vehicles on our roads continues to increase, and if they still run on fossil fuels, the improvements in air quality brought about by our efforts will not be lasting, no matter how hard we try. Findings in the recently completed Third Comprehensive Transport Study have made that very clear. The Study also highlights the

need to revise our comprehensive transport strategy. The Secretary for Transport will soon be presenting a package of recommendations based on the findings of the Study. In fact, we have already adjusted our strategy to encourage the use of less polluting modes of transport, for example, by improving railway services and pedestrian facilities in newly developed areas. To develop environment-friendly modes of transport, how much they cost, how to share infrastructural investment and how to determine the charges to be borne by users, are all questions that will need to be solved in ways different from traditional thinking. New strategic plans for investment in transportation and land will also be drawn up.

105. Other measures to prevent and abate air pollution will be taken by the bureaux concerned. For example, apart from the introduction of new emission standards for motorcycles earlier this month, we will impose more stringent control over pollutants contained in petrol next year. Proposals for phasing in age limits for different categories of vehicles will be presented for consultation next year. We will need to explore longer term measures, such as conducting feasibility studies on an electric trolley bus system and other electrically powered vehicles, and examining the possibility of increasing the use of natural gas to partly replace other fuels for vehicles and power-generating. Furthermore, we will soon put forward a proposal on an indoor air quality certification scheme for public consultation. Government buildings will take the lead in implementing the scheme.

B. Water Pollution

106. Next, I will talk about the prevention and control of water pollution. This issue covers two areas, first, clean drinking water and second, sewage treatment.

Drinking Water

107. As Dongjiang is a major source of Hong Kong's drinking water, some people have raised questions as to whether the pollution in the river has affected the quality of our fresh water supply. First of all, I would like to emphasise that Hong Kong's drinking water is absolutely clean and safe. The

quality of water from Dongjiang meets the Mainland standards. In addition, the treatment procedures here in Hong Kong are very stringent. The quality of treated water meets World Health Organisation standards for water suitable for immediate consumption and is comparable to the US national standards for drinking water.

108. Maintaining the quality of Dongjiang water supplied to Hong Kong is a long-term priority for us and for the Guangdong authorities. Undeniably, the economic developments along Dongjiang have caused pollution of the river. To tackle the problem, the Guangdong authorities joined forces with the SAR Government and moved the Dongjiang intake upstream to avoid taking in the more contaminated water from the tributaries. The Guangdong authorities also plan to construct, within four years, a closed aqueduct to replace the existing open channel from the Dongjiang intake to the Shenzhen Reservoir. To effectively prevent and control the pollution of Dongjiang, measures including the provision of sewage treatment facilities along the river, better land use and stronger enforcement actions against pollution at source are also being taken.

109. We believe that all existing projects and plans for improving the quality of the Dongjiang water supplied to Hong Kong are moves in the right direction. The SAR Government is actively co-operating with the Guangdong authorities in this important task. We will examine carefully the valuable input from all sectors of the community and monitor the progress and outcome of the works to make sure that we are on top of any problems that may arise.

Sewage Treatment

110. Clean harbours and rivers are more than a pleasure to look at. They provide favourable conditions for sports and recreation and are beneficial to our health. To tie in with the overall sustainable development of Hong Kong, major infrastructural projects have been put in place to improve the sewage collection and treatment systems. As water pollution problems vary from place to place, different solutions need to be found.

111. The waterways in the New Territories used to be heavily polluted by livestock waste. As a result of the Government's efforts over the past decade, the rivers now generally flow smoothly and have good water quality. However, there is still pollution of rivers and streams by disposal of untreated wastes from scattered villages not covered by the sewerage network and from other sources. We are working on the solutions which include, for example, removing 80% of the remaining pollution load in the Shing Mun River. The situation in the new towns is better as most of them are served by advanced sewage treatment facilities. Water pollution arising from the older urban areas on Hong Kong Island and in Kowloon is much more serious. 75% of the sewage produced by the some 5 million urban residents is discharged into the Harbour after coarse screening only.

Strategic Sewage Disposal Scheme

112. As part of our efforts to tackle the sewage problem that I have just described, the Strategic Sewage Disposal Scheme (SSDS) is being implemented as quickly as possible. We are building a massive network of tunnels 150 metres below the surface of the Kowloon peninsula. This is part of Stage I of SSDS. Other projects include a sewage treatment works on Stonecutters Island and a submarine pipeline to carry treated sewage to the western seabed of the Victoria Harbour for discharge. Both projects have been completed and the sewage treatment works has come into operation. Over half of the tunnel network, which will be 23 km in length, has also been completed. On completion, the network will collect all the sewage from Chai Wan, Tseung Kwan O, Kowloon, Tsuen Wan, Kwai Chung and Tsing Yi, which will then be carried to Stonecutters Island for treatment. At present, of the effluents discharged into our inner harbour, 70% comes from these districts. We should therefore lose no time in completing the network. However, the construction of these tunnels has been very difficult and is taking longer than we all had hoped. The latest estimates from the engineers are that the projects may not now be finished until well into 2001.

113. We are also actively making preparations for Stages II, III and IV of the SSDS. This part of the plan calls for building collection tunnels on Hong Kong Island, construction of a tunnel from Hong Kong Island to the

treatment plant on Stonecutters Island, upgrading of the treatment system to include disinfection, and building a longer tunnel that will discharge treated sewage outside the harbour area. All these projects were originally scheduled to be completed by 2008.

114. While the general strategy for collecting and treating sewage from the main urban area remains sound, experience with Stage I suggests that we need to re-schedule the completion dates and re-assess the costs of the projects in the later stages in a more conservative manner. To this end, we will set up an independent expert group within the next few months to examine whether these projects can really provide the most cost-effective and environmentally friendly means for handling the sewage from Hong Kong Island. This will help avoid further changes and consequent delays to the projects needed to protect the water quality of the harbour.

Increasing Expenditure on Sewerage Works

115. The SSDS is a huge project. Stage I alone will cost a total of \$8.2 billion and the total costs for the remaining works will reach an estimated \$18 billion. Even so, Hong Kong's entire sewerage improvement programme is so massive that the SSDS only accounts for less than half of the overall expenditure. Our plans call for us to invest heavily in sewerage systems and treatment works in other areas including the new towns and small villages in the New Territories, as well as protecting the Mai Po Nature Reserve. Such spending will increase by 50% to \$9 billion in the next five years.

C. Solid Waste

116. An excessive output of solid waste is a headache for affluent societies. Hong Kong is not immune from it. Last year, despite the economic downturn, we still produced about 45 000 tonnes of solid waste every day, of which 10 000 tonnes were municipal waste and over 32 000 tonnes were construction and demolition materials, enough to fill up a medium-sized ocean-going freighter. After recycling, there were still over 8 000 tonnes of municipal waste and 7 000 tonnes of construction and demolition materials dumped at the landfills each day, filling them up much faster than expected.

To prevent waste accumulation from becoming a serious long term problem and hampering the development of Hong Kong, we must seek to reduce waste, increase the recycling rate, and find proper ways of disposal.

Waste Reduction

117. The Waste Reduction Committee was established earlier this year. Its target is to double the overall rate of municipal waste reduction and recycling by 2007. Measures are already being taken to this end. Waste separation facilities are now available in all public housing estates and many private residential developments. In addition, the Government has provided land to facilitate the operation of the waste collection and recycling industry. In general, waste reduction can be encouraged by levying a suitable charge on waste collection and disposal as well as improving all commercial packaging. But given that our consumer goods are mainly imported, controlling their packaging is by no means easy. As for collecting a waste disposal fee, the Government will put forward a proposal for a landfill charging scheme shortly.

Recycling

118. On the waste recycling front, we have achieved some results. In Hong Kong last year, 78% of the construction and demolition materials were recycled. As for municipal waste, 80% of metals, 35% of plastics and 53% of paper products were recovered for recycling. While these figures are not low by world standards, they do not reflect the fact that only 8% of recoverable domestic waste was recycled in Hong Kong. We must step up our efforts in this area. With this in mind, we will seek funding in the coming year to construct new waste separation facilities. We will also encourage the new District Councils to explore ways to increase the recovery rate of reusable materials in collaboration with the business sector and local communities.

Waste to Energy

119. Regardless of what efforts we may make in reducing waste at source and increasing reuse and recycling rates, we will still be left with large volumes of waste that need to be disposed of in an environmentally responsible manner. We are restoring old landfill sites at a cost of \$2.3 billion and are seeking to turn the combustible gases into energy. We will be consulting the community in the coming year on proposals for new waste management facilities, including waste-to-energy incinerators that meet the highest environmental and health standards. We will have to invest over \$10 billion on such facilities in the next decade.

D. Co-operation with the Mainland

120. Hong Kong cannot possibly solve all of its environmental problems single-handedly. We need to work closely with the Mainland authorities. We have recently reached an agreement with the State Environmental Protection Agency to the effect that any movement of waste between Hong Kong and the Mainland should conform with the Basel Convention. We also need the co-operation of our neighbours, for example to protect our air and water quality. They in turn need our support since some of their pollution problems originate from our economic activities.

121. Along with rapid economic development in recent years, the Guangdong Province has done much in environmental protection and with significant results. At the very same time as the Governor of Guangdong Province, Mr. Lu Ruihua, is making an announcement, I am glad to announce here that Hong Kong and Guangdong will co-operate in six areas of environmental protection. First, to complete a joint study on regional air quality by early 2001 and to formulate long-term preventive measures as soon as possible. Second, to study the feasibility of adopting common standards for diesel fuels in both Guangdong and Hong Kong, and to draw up an implementation plan. Third, to co-operate in forestry conservation by exchanging relevant information and technical knowledge. Fourth, to reinforce co-operation on controlling pollution of Dongjiang as well as improving its water quality. Fifth, to enhance the exchange of data on the

water quality in the Pearl River Delta Region, so as to formulate a management plan to improve the water quality around the Pearl River estuary. Sixth, to pay close attention to the environmental impact of town planning and development, and to strengthen our co-operation and liaison in these two aspects. We have also agreed to set up a “Joint Working Group on Sustainable Development and Environmental Protection” under the Hong Kong/Guangdong Co-operation Joint Conference to co-ordinate our efforts in these areas. I sincerely hope that our collaboration will be a fruitful and useful one.

E. Adhering to the Principle of Sustainable Development

122. There are various factors contributing to sustainable development. Today, I will touch on three of them - institutional framework, social commitment and the environmental protection industry.

Institutional Framework

123. I intend to set up a Council for Sustainable Development. Its functions will be to provide expert advice to the Government and keep the public regularly informed about its work, so that we can build a better understanding of the concept of sustainable development. It will also encourage the community to put the concept of sustainable development into practice. To further this objective, I propose that a \$100 million grant be made to support community initiatives on sustainable development especially on educational programmes for citizens and students to develop a strong awareness of sustainability. The Council will report to me. Its relationship with other consultative bodies will be considered carefully, to ensure integration and the building of partnerships. Within the Administration, all bureaux will in future be required to carry out “sustainability impact assessments” of major new policy proposals. A Sustainable Development Unit will be established to monitor these assessments and provide analysis and support to the Council.

Shared Commitment

124. To implement the various programmes that I have outlined, the Government will need to spend over \$30 billion in the next ten years. This is without doubt an enormous sum, but as we all know, these infrastructural facilities are vital to the protection of public health. They are as indispensable as well-equipped hospitals, good schools and decent housing to a modern city. If we are reluctant to pay the cost today, we will have to pay more in future when the pollution problem gets worse. There can be no greater folly than this.

125. The key issue of concern is the question of who is to pay for the day-to-day operating and maintenance costs of the anti-pollution facilities whose capital costs have been paid for by the Government. The recurrent costs for handling sewage alone will total \$1.1 billion this year and are expected to rise to \$3 billion a year in ten years' time. It is everyone's responsibility to prevent and control pollution. In my view, it is only fair for the users and polluters to fully cover these recurrent costs through payment of charges. In future, when seeking approval for capital funding for sewerage programmes or waste disposal facilities, we will be asking Members of this Council to consider the issue of charges at the same time.

Environmental Protection Industry

126. Effective environmental protection calls for a well-developed supporting industry. While the cost to the community of environmental protection is considerable, it will bring about many new jobs and business opportunities. Our business sector, researchers and financial institutions should explore more actively opportunities in the environmental protection market. To support this development, the Government will do its best to eliminate hurdles in our institutional and legal frameworks in a bid to make Hong Kong a showcase for a quality environment; and one which is able to offer comprehensive services, such as financial, technical and consultancy advice to support environmental improvements in the Asia-Pacific Region. If Hong Kong can become a pioneer in developing a set of innovative

environmental protection technologies which are suitable for the Region, we can help create a green and sustainable environment not only for our own future generations, but also for our neighbours.

F. A Quality Living Environment

127. A world-class city must have a pleasant and safe living environment. We must therefore do the following: first, implement urban renewal thoroughly; second, protect the natural environment of our countryside; and third, fully utilise and beautify the Victoria Harbour in an integrated fashion.

Urban Renewal and Protection of Our Heritage

128. At present, there are many citizens still living in dilapidated buildings in old, run-down urban areas. Very often, this does not mean just poor living conditions, but risks to their safety and health as well. I have visited some of these old urban areas, and what I have seen has impressed on me the urgency of taking a new and more proactive urban renewal approach to bring real improvements to the living conditions of these residents. Out of the existing 8 500 urban buildings which are over 30 years old, some 2 200 require redevelopment or extensive repairs. Another 3 900 or so also require repairs of varying scale. In 10 years' time, the number of buildings over 30 years old will increase by 50%. This means that the aging problem of buildings is getting worse.

The Urban Renewal Authority

129. The Land Development Corporation (LDC), which has been shouldering the arduous task of urban renewal, has completed a number of redevelopment projects, though not without difficulties. The obstacles include a protracted land acquisition process and a shortage of rehousing resources. It would take us at least 30 years to complete all the priority redevelopment projects. At this pace, we would not be able to arrest the overall deterioration of the urban areas. With this in mind, we intend to set up an Urban Renewal Authority (URA) next year to replace the LDC. The URA will be entrusted with powers to assemble land for redevelopment. Our proposals for the

establishment of the URA will be set out in a White Bill to be published for public consultation later this month. We aim to introduce a bill into this Council early next year. When the URA is established and the new initiatives are implemented, we believe that all priority projects can be completed within two decades, instead of three as previously estimated.

Comprehensive Redevelopment of Old Urban Areas

130. The new approach to urban renewal aims at facilitating comprehensive planning over larger areas, providing additional open space, green belts, and community facilities and improving road networks while preserving the distinctive features of the old districts concerned. Our urban renewal programme will focus on nine old urban areas, namely Ma Tau Kok, Tai Kok Tsui, Sham Shui Po, Yau Ma Tei, Yau Tong, Kwun Tong, Sai Ying Pun, Wan Chai and Tsuen Wan. Under-utilised industrial areas will also be included in our redevelopment programme to allow use for other purposes.

131. Financing arrangements will be put in place for the implementation of urban renewal projects. These include waiver of land premia for urban renewal sites, and packaging redevelopment projects so that financially viable projects can cross-subsidise non-viable projects. Loans will also be provided where necessary, and the residents affected will be properly rehoused.

132. Under this new urban renewal strategy, we will also focus on the proper maintenance of buildings. It should be pointed out that old buildings are not necessarily dilapidated. The main culprit is the absence of regular repairs. Unfortunately, attempts to legislate on building maintenance to ensure owners' compliance have not been well received. I would like to take this opportunity to appeal again to all of you for your support of our work in this area. The Secretary for Planning, Environment and Lands will announce shortly a proposal for a statutory scheme of preventive maintenance of buildings for public consultation. If this proposal is supported, then not only the residents and landlords concerned, but the entire community will benefit.

Preserving Our Heritage

133. It is important to rehabilitate and preserve unique buildings as this not only accords with our objective of sustainable development but also facilitates the retention of the inherent characteristics of different districts, and helps promote tourism. The concept of preserving our heritage should be incorporated into all projects for redeveloping old areas. The Government will review the existing heritage policy and related legislation for better protection of historic buildings and archaeological sites.

Nature Conservation

134. Amidst the rapid pace of city life in the 21st Century, it is important that we preserve our countryside. Taking advantage of the beautiful natural landscape of Lantau Island and Sai Kung District, we intend to develop these two areas into centres of recreational and leisure activities compatible with the principle of nature conservation. In 2001, we will also substantially extend managed country park areas on Lantau Island, enhance management of countryside areas such as the wetlands in Mai Po, and deploy more artificial reefs. Meanwhile, the afforestation programme in country parks is making good progress. Over the past two years, with the support of various sectors in the community, more than a million trees have been planted. As we continue our efforts in this area, we will also draw up a comprehensive conservation policy and work with different sectors in the community on urban greening and urban greenery protection. Together we will strive to make Hong Kong a green model for Asia.

A More Beautiful Harbour

135. Victoria Harbour is an integral part of Hong Kong that we all treasure. It deserves all our efforts to protect it and make it more beautiful. For this reason, we have decided to scale back the reclamation planned for the Harbour.

136. Moreover, we will make land available along the waterfront for promenades and walkways so that our citizens and visitors can stay away from the hubbub of the city, stroll along the promenades and enjoy the beautiful scenery and refreshing sea breeze. On the open space on both sides of the Harbour from Lei Yue Mun in the east to Kennedy Town in the west, we will provide open plazas, landscaped areas, marinas, shops and restaurants with distinct cultural flavours. The arts, recreational and entertainment opportunities offered will enrich Hong Kong's quality of life, and fascinate tourists with Hong Kong's unique culture, a blend of Chinese and Western elements. In particular, we are planning to develop a major performance venue in the West Kowloon Reclamation and a sports complex in Southeast Kowloon to serve the community and attract tourists. Both will be designed to world-class standards and will help put Hong Kong on the map as the events capital of Asia.

137. In the plans for developing Southeast Kowloon, West Kowloon Reclamation, Wan Chai, Central and Western District, the waterfront should be reserved for the above amenities. Traffic corridors should be built as underground or semi-submerged roads to alleviate noise and air pollution as well as to improve the visual aspect. The development of the waterfront of the reclamations in Central and Wan Chai, and East and West Kowloon presents us with the opportunity to give Victoria Harbour a face lift. We will hold an open competition and invite local professionals as well as those from all over the world to help us create a new look for our Harbour in the new millennium.

G. Summing Up

138. If we are to completely overhaul our living environment, there are still many other issues that merit our attention. For example, we have on our agenda the prevention and control of noise, as well as energy efficiency in building design. The respective Policy Secretaries will brief you on the details of these later.

139. Our environment is deteriorating, pollution is serious, urban areas have become dilapidated, and the residential environment leaves many people dissatisfied. The problem did not arise overnight. No matter how hard the Government tries, it will not be able to accomplish the task of reversing the decline in one go and get all the problems solved tomorrow. But this underscores why we have to translate our words into action immediately. On the threshold of the 21st Century, we have a choice between increasing degradation of our environment, which will endanger our health and hamper the development of our economy, and a future in which respect for our environment will enhance our prosperity and the quality of our own lives and those of generations to come. The choice is quite obvious. Sustainable development need not be a trade-off between wealth and the environment.

140. I have just talked about the two most urgent tasks before us, that is developing talented people and making Hong Kong an ideal home. To build a world-class city, however, much needs to be done in various areas, namely upgrading our infrastructure, enhancing Hong Kong's competitiveness, improving the business environment, rationalising market operation and encouraging the development of a more open market, creating an environment conducive to innovation and scientific research, pressing on with our plans to improve the public administrative structure and efficiency, promoting cultural and sports activities, and boosting the image of Hong Kong in the international community. All these have a direct bearing on the well-being of our citizens and therefore deserve the concerted efforts of the SAR Government and the community at large.

VI. *The Foundation of Prosperity and Progress*

141. To achieve even greater success in the next century, Hong Kong must not only have people of high calibre and a quality environment, but also sound institutions and a basic structure which is conducive to economic prosperity. We must also have a caring and decent value system that attaches great importance to our people's cultural and spiritual life. I would like to touch briefly on the main issues.

A. **Our Institutions**

Promoting the Basic Law

142. The Basic Law underpins our institutions. This enables us to build a quality society with unique characteristics. The rule of law, a clean administration, freedom of the press, protection of the freedoms and rights of the individual, are all essential elements contributing to the success of Hong Kong. The SAR Government will do its best to protect these valuable assets. Next year will be the tenth anniversary of the promulgation of the Basic Law. The SAR Government will organise a series of activities to promote better understanding of the Basic Law and to encourage relevant research. The Government will also seek to enhance mutual understanding between Hong Kong and the Mainland of each other's legal systems. It is important that we do our utmost to maintain our existing system. Yet at the same time, we should work towards better mutual understanding of our two systems, and better understanding of our country. Only with full understanding of "One Country" can we successfully maintain "Two Systems". I am confident that with increased communication, better understanding and more experience, there will be greater consensus on the implementation of the provisions of the Basic Law, and that this will thus further strengthen the foundation for the rule of law in the Hong Kong SAR.

Rule of Law

143. The rule of law, in which I firmly believe, is fundamental to our success. It is precisely because of the full implementation of the Basic Law after the reunification that we have been able to continue to practise and develop the common law system in Hong Kong. This constitutional arrangement put in place under the “One Country, Two Systems” principle is unique.

144. With a new constitutional arrangement, there are bound to be teething problems which need to be handled carefully. I am sure our legal system will operate much more smoothly given time and experience. On the right of abode issue, we solved an important and difficult problem for Hong Kong in full accordance with the powers vested in us by the Basic Law and its prescribed procedures. There are divergent views within the community on this issue. However, the fact is that by resolving the right of abode issue, we have succeeded in protecting long-term the interests of the community while at the same time upholding the rule of law.

145. I firmly believe that all are equal before the law, and I will do my very best to uphold the rule of law in Hong Kong. Our legal system has always run well. Our police are maintaining law and order as always. The judiciary remains independent with the same judges hearing cases in the same fashion as they did before the reunification. Hundreds of thousands of cases are heard each year with the Government sometimes finding itself on the losing side.

Constitutional Development

146. Since the reunification, we have witnessed a strong interest on the part of the community to participate in public affairs. The SAR Government is committed to the progressive development of our democratic institutions in accordance with the Basic Law. Our two top priorities are to prepare for the District Councils elections in November and for the second Legislative Council election to be held next September. The Secretary for Constitutional Affairs will give further details.

147. In accordance with the spirit of the Basic Law, we need to establish an executive-led political structure. Over the past two years, the executive authorities and the legislature have explored ways to establish a co-operative relationship based on mutual checks and balances. I hope that both the executive authorities and the legislature will perform their specific functions in accordance with the Basic Law and work closely together in the interests of the community. My Administration will make still greater efforts to maintain communication with the Legislative Council and secure its greater support.

148. In my last Policy Address, I said that the two Municipal Councils will not be retained as from the year 2000. The new streamlined framework will facilitate better co-ordinated and more efficient, and hence more cost-effective delivery of municipal services. More importantly, it will allow further participation by those in the fields of arts, culture, recreation and sports. This is conducive to the development of such activities in Hong Kong. I hope Honourable Members of this Council will give us their support.

149. The first District Councils (DCs) of the Hong Kong SAR will come into being on 1 January 2000. As I promised last year, the role of the new DCs will be enhanced. We will invite DC Chairmen and the newly created Vice Chairmen to join the District Management Committees. We will assist the DCs in promoting cultural, recreational and sports activities and in monitoring local environmental hygiene. We will appoint more DC Members to various advisory committees on livelihood matters. Moreover, we will provide additional funding for improving the local environment, promoting district activities, and increasing the accountable allowances of DC Members. Government departments will have closer co-operation and communication with the DCs and the various advisory bodies.

150. As for the development of our political system, I have heard divergent views. Some say now is the time to quicken our pace towards universal suffrage or, at least, to start examining and discussing this issue. Others say we should be more cautious as we have been going too fast. In my view, the pace of democratic development must be in step with the actual situation in Hong Kong. We must allow time for further study and for the present political system to mature. The Basic Law has laid down a 10-year timetable to enable us to consider the next step forward in the light of our

political experience during that time. I hope that by 2007, a mature view will have emerged in the community on the development of the political structure which will help us to decide on the strategy and the steps needed for its further development.

Introducing Reforms while Maintaining Stability

151. Earlier, I said that our institutions provide the basis for our development. Over the years, we have put in place well-established systems and structures which enjoy the confidence of our community and investors, such as our highly-admired administrative structure and the civil service. On the other hand, there are areas that clearly need reforms. Some of the existing systems and procedures may not be able to adapt to the changes and demands of the new era. Since Hong Kong has enjoyed a high degree of autonomy following the reunification, it is also only natural that the community has greater expectations of the Government. Moreover there is still room for improvement. Given the changing circumstances and rising aspirations, standing still is simply not an option. During the past two years, the Government has been determined to remove any weaknesses through reform. Also there have been voices in the community supporting and urging faster reforms. Some worry, however, that we may be attempting too much, too quickly.

152. The reforms that we are talking about can be broadly grouped into three types. The first is related to the improvement to some market mechanisms and injecting greater vitality into our markets. The second is the rationalisation of the Government's basic policies or delivery systems. The third is the modernisation of the civil service structure which involves government efficiency.

153. Reforms of the first type include the strengthening of the linked exchange rate regime and the merger of the two exchanges. These reforms will remove some of the weaknesses which surfaced in the financial turmoil and further strengthen our position as a financial centre. These two initiatives are the inevitable consequence of changing circumstances. As they are steps in the right direction and have been taken at the right time, they have a very good chance of success. With regard to the privatisation of a part of the

shares of the MTRC, this allows the community to participate in the ownership of a successful and profitable public corporation, and the introduction of private ownership will reinforce the MTRC's commitment to competitiveness and efficiency.

154. The second type of reform is the rationalisation of the Government's basic policies or administrative structure, such as education reforms and the dissolution of the Municipal Councils. In the welfare sector, reform of the Comprehensive Social Security Assistance (CSSA) Scheme is being implemented in order to look after more people who are suffering financial hardship during the economic downturn, without dampening the CSSA recipients' incentive to work, and at the same time, ensuring that the Scheme serves as a long term safety net. Moreover, we will also introduce reform to our existing subvention system, so as to enhance the cost effectiveness of services provided and to improve public accountability. As regards the health care system, we anticipate difficulties in the longer term and we have commissioned an early consultancy study. For the time being, we are still in the stage of deliberation and consultation - it is not our intention to rush this reform.

155. The third type of reform covers the modernisation of the civil service, productivity enhancement, and entry pay adjustment. These reforms are being implemented gradually after full consultation and careful deliberation. The aim is to improve our services and efficiency. After reform, the quality of government services will be enhanced. The general public supports these reforms, which are proceeding smoothly. We will proceed prudently and make every effort to maintain the morale and stability of the civil service. Any reform proposals which might affect a large number of existing staff will be implemented in an orderly manner. We will consult the staff affected and listen to the views expressed by the Central Staff Consultative Councils in formulating specific proposals. In the process of reform, we will endeavour to make reasonable arrangements for serving staff and will avoid staff redundancies as far as possible through inter-departmental redeployment, secondment and staff retraining.

156. Another reform to improve the Government's efficiency concerns proposals to corporatise or privatise individual departments. At present, we will concentrate on the scheme for private sector involvement in the estate management work of the Housing Department. In the process of reform, we will ensure that the legitimate rights of serving civil servants are protected. With respect to other departments, we will conduct in-depth studies and consultations before we take any further steps.

157. When we consider the reforms mentioned above, we will give careful consideration to the issues in question, prioritise the reforms, and carry out extensive public consultation. We will also take into full account the prevailing circumstances and the impact on the community. Moreover, in seeking reforms, we will do so step by step paying due attention to the need to maintain the community's prosperity and stability. Depending on the individual circumstances, we will introduce reforms in different areas at varying speeds and by different means. I am confident that by implementing reforms step by step in a well-planned manner, we will be able to build a better society.

B. Government's Role in the Economy

158. Here I would like to talk about the role of the SAR Government in our economy. As we all know, Hong Kong's remarkable economic success over the past few decades owes a great deal to our free and market-oriented economy with fair competition. The Government is committed to building the foundation for the healthy development of the market according to sound economic principles. It is only when the market mechanism is not working properly that the Government steps in and exercises necessary and limited intervention. Since its inception, the SAR Government has carried on the tradition of fiscal prudence and small government. All the Government's economic endeavours are infrastructure related. Infrastructure can be divided into two major categories: software and hardware. The former includes the framework for education, environment, rule of law, regulation of specific markets, etc., whereas the latter includes public facilities for air, sea and land transportation, tourism, communications, information technology, as well as scientific research, etc. Before decisions on infrastructure are taken, the

Government invariably undertakes extensive consultations to get a clear picture of the economic trends and market dynamics, and considers the general direction of our strategic development. All our strategic initiatives are market-oriented and designed to support the development of the private sector. Of course, in the face of rapid changes and fierce competition, the SAR Government ought to, and in fact does, respond more quickly on the economic front than before. Yet the guiding principles and the nature of our work have not changed.

C. Our Society and Culture

159. A bright future for Hong Kong encompasses not only economic progress, but also the building of a caring, decent society with a rich cultural life.

Helping the New Arrivals

160. We cherish family reunion. Many people in Hong Kong have relatives on the Mainland. Through an orderly arrival arrangement, 54 000 family members of Hong Kong people are allowed to come from the Mainland and settle here each year. This is no small figure. The new arrivals are also members of our society and they will contribute to our future development. To help the new arrivals integrate into society more easily, the Government has introduced a wide range of measures, such as providing them with various kinds of information and tailor-made courses, as well as offering financial assistance for the education of their children.

161. I understand that housing is the major problem facing families newly arrived from the Mainland. According to the existing policy of the Housing Authority, families applying for public rental housing should have a majority of their members satisfying the seven years' residence rule before they are allocated housing. Furthermore, the Housing Authority treats non-adult children born in the Mainland to parents who are Hong Kong permanent residents differently from those born in Hong Kong. I have asked the Housing Authority to consider reviewing these criteria so that a family will be eligible for allocation of public rental housing if at least half of its

members meet the residence rule; and non-adult children born in the Mainland to parents who are Hong Kong permanent residents will be treated the same as those born in Hong Kong. This will ensure a fairer and more rational approach to the allocation of public housing. I want to emphasise that although more people will be added to the waiting list, the Government is committed to building more public housing flats at a faster rate, thus the waiting time for public housing will still be reduced, not lengthened.

162. To help newly arrived children integrate into the local school system, we are looking into the possibility of cross-boundary co-operation. We will follow the example of some voluntary bodies and provide these children with induction services before they arrive in Hong Kong. Such services will range from providing English readers to conducting preparatory courses.

163. The unemployment rate of the newly arrived is slightly higher than the average rate in Hong Kong. The Labour Department has set up employment and guidance centres to provide employment services for new arrivals. The ERB has also extended its service to new arrivals and will handle applications from those aged below 30 flexibly. In general, all new arrivals who are jobless should be able to join the training courses offered by the ERB.

Hong Kong's Culture and Creativity

164. Hong Kong's future development is not just a matter of pushing forward with physical construction. What we also need is a favourable and flourishing cultural environment that is conducive to encouraging innovation and creativity in our citizens. Our reunification with the motherland has enabled us to build on Chinese culture and at the same time draw on Western culture to develop our own distinctive and colourful culture. We will continue to promote public understanding of Chinese culture, history and heritage on the one hand and to enhance our exchanges and communication with the rest of the world on the other, so as to learn from different cultures around the world. Hong Kong possesses a unique cultural history going back several thousand years. This not only helps us to establish our identity but

also serves to attract tourists. I have proposed to develop Hong Kong into an international centre for cultural exchanges. This will help to strengthen our identity as a world-class city.

Protecting Intellectual Property Rights

165. A sound intellectual property rights protection regime is a prerequisite for promoting innovation and investment in technology. We have in place a well-developed legal framework for this purpose and action is being taken to strengthen it. But the key to effective protection of intellectual property rights is compliance with, and enforcement of, the law. Consumers should show their support by boycotting pirated goods. The SAR Government is determined to continue combating piracy through law enforcement and education.

Sports

166. We have been supporting the extensive promotion of sports development so that our citizens can enjoy vigorous health and a colourful community life. In addition, we have been sending our athletes to take part in national and international events which will help heighten the community's competitive spirit and strengthen our social cohesion. The SAR Government will strive to enhance the quality of our sporting environment through the provision of more educational and training opportunities, as well as additional recreational and sports facilities. We will also actively foster more exchanges in sports with the Mainland and other parts of the world.

Moral Values

167. I believe we all desire a society of greater harmony, in which everybody respects and treats others well. We should carry forward our traditional virtues, such as filial piety, humanity, importance attached to education, and diligence. We favour consultation, not confrontation. We seek protection of the rights of the individual, yet we should also fulfil our social responsibilities and obligations. As a responsible government, we will

enhance our services and support to the aged, frail, disabled, unemployed and families in need. We also hope that the voluntary organisations will keep up their important contributions.

Media Ethics

168. The media has an important role to play in creating a decent social and cultural environment. In an open society like Hong Kong, the media exerts influence on our social and cultural ethos every day. Parents, teachers and even media personnel have told me about their concerns over the excessive display of violence and pornography, as well as the sensational and sometimes false news reports made by some members of the media. In fact, a number of local groups have already taken the initiative to promote public awareness of media ethics. The SAR Government will continue to protect press freedom in strict accordance with the Basic Law. But we also believe “press freedom” should not become a pretext for disregarding media ethics. It is inexcusable for any media operator to resort to pornography, violence, libel or misrepresentation simply for profit. There is strong public opinion that we should protect our younger generation from the undesirable influence of violence and pornography. I understand that Members of this Council have held many discussions on the professional ethics and social responsibilities of the media. This is an issue of prime public concern which deserves the Government’s due attention.

169. In addition, the Law Reform Commission has put forward recommendations on the issue of media intrusion on individuals’ privacy for public consultation. The SAR Government awaits with interest the outcome of the public consultation exercise. In this respect, I share the hope of our citizens that the media can set higher standards for their professional ethics and truly exercise self-discipline.

VII. Conclusion

170. Honourable Members, ladies and gentlemen, we are now on the threshold of the 21st Century - a unique and fascinating moment in history.

171. At the turn of the last century, a weak and impoverished China was invaded by foreign powers. China has always been a great nation with industrious, brave and wise people but modern history has seen her decline. Since the founding of the People's Republic of China half a century ago, our fellow countrymen have been striving for progress, and their achievements have impressed the world. On 1 October, the people's pride in modern China was reflected in the celebrations of the 50th anniversary of our National Day in Tiananmen Square. The world witnessed a people full of vigour, hope and confidence. A people who are looking forward to the new era to create a better life for themselves and once again making China a distinguished nation in the world.

172. The fact that we are able to implement the principle of "Hong Kong people running Hong Kong" under the sovereignty of China reflects the progress made. In 1996, when I was a candidate in the election for the Chief Executive of the Hong Kong SAR, I presented my thoughts on the administration of Hong Kong in my platform entitled "Building a 21st Century Hong Kong Together". Today, I still firmly believe that we must:

- ensure that Hong Kong's economy remains free and vibrant, so that it will continue to play a significant role in the world's economic arena;
- develop Hong Kong into a highly civilised society which is knowledge-based, affluent, harmonious and caring;
- cultivate a sense of pride for our new identity and a spirit of continuous self-improvement; and
- contribute to our country and fellow countrymen as best we can in a way that is commensurate with Hong Kong's status.

173. I believe that my philosophy, which was formed after discussions with people from all walks of life before I took office, reflects the aspirations of most people. Since I took office, I have had more opportunities of meeting people from a wider spectrum of the community. The views they expressed have affirmed my belief. In the last two and a half years, I have followed my belief and also the aspirations of the community in developing long-term plans, and in undertaking immediate tasks. I often recall the families I have met during my visits to the districts and the people I have talked to in buses and on the MTR. I remember well the family of five squeezed in a tiny living space. The new immigrant who had to leave his home in North Point before dawn and travel a long way to his workplace only to earn a meager income, and all the young people attending evening classes after a hard day's work. I was deeply impressed by their remarkable qualities. However difficult the situation, they were determined to work hard and go through hard times in the hope of a better life for themselves and their children. Hong Kong is indeed a city of opportunities. Many citizens have followed this path and have become part of Hong Kong's success story.

174. For Hong Kong citizens to enjoy better education, more comfortable housing, a more beautiful environment, better health and more job opportunities, much needs to be done by the Government and the community as a whole. We still need to overcome many difficulties, but I am confident that we can tackle any challenge. What we have achieved in the past two years or so proves we will be able to meet the challenges that come our way, however daunting they may seem. We are already making progress in meeting the pledges that we made. Time will show that we are able to seize new opportunities to build a better future for Hong Kong. Hong Kong's future depends on each and everyone of us. I call on all of us to greet the coming century and new millennium with the will to succeed and the confidence that success will be ours.