

立法會
Legislative Council

LC Paper No. CB(1)823/03-04
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Panel on Financial Affairs

Minutes of meeting
held on Saturday, 6 December 2003 at 9:45 am
in the Chamber of the Legislative Council Building

Members present : Hon Ambrose LAU Hon-chuen, GBS, JP (Chairman)
Hon Henry WU King-cheong, BBS, JP (Deputy Chairman)
Hon Kenneth TING Woo-shou, JP
Hon James TIEN Pei-chun, GBS, JP
Hon Albert HO Chun-yan
Dr Hon Eric LI Ka-cheung, GBS, JP
Dr Hon David LI Kwok-po, GBS, JP
Hon NG Leung-sing, JP
Hon James TO Kun-sun
Hon Bernard CHAN, JP
Hon CHAN Kam-lam, JP
Hon SIN Chung-kai
Hon Jasper TSANG Yok-sing, GBS, JP
Hon Emily LAU Wai-hing, JP

Non-Panel Member : Hon CHAN Yuen-han, JP
attending

Members absent : Dr Hon David CHU Yu-lin, JP
Hon LEE Cheuk-yan
Dr Hon Philip WONG Yu-hong, GBS
Hon Abraham SHEK Lai-him, JP

Public officers attending : Agenda Item IV

Mr Edmond LAU
Principal Assistant Secretary for Financial Services and
the Treasury (Financial Services)

Mr CHOI Yiu-kwan
Acting Deputy Chief Executive (Banking)
Hong Kong Monetary Authority

Ms Rose LUK
Head (Banking Supervision)
Hong Kong Monetary Authority

Agenda Item V

Mr Henry TANG, GBS, JP
Financial Secretary

Mr TANG Kwong-yiu
Government Economist

Clerk in attendance : Miss Salumi CHAN
Chief Assistant Secretary (1)5

Staff in attendance : Ms Pauline NG
Assistant Secretary General 1

Mr KAU Kin-wah
Assistant Legal Adviser 6

Ms Connie SZETO
Senior Assistant Secretary (1)4

Mr Joey LO
Assistant Secretary (1)1

Miss Christy YAU
Legislative Assistant (Acting)

I. Confirmation of minutes of meetings

(LC Paper No. CB(1)305/03-04 — Minutes of special meeting on 11 October 2003

LC Paper No. CB(1)474/03-04 — Minutes of special meeting on 28 October 2003)

The minutes of the special meetings held on 11 and 28 October 2003 were confirmed.

II. Information papers issued since last meeting

2. Members noted the following information papers issued since the last regular meeting held on 6 November 2003:

- (a) Information Paper on “Sale of Loans under the Home Starter Loan Scheme and the Sandwich Class Housing Loan Scheme to the Hong Kong Mortgage Corporation Limited” (LC Paper No. CB(1)299/03-04(01));
- (b) Securities and Futures Commission Quarterly Report for July to September 2003 (LC Paper No. CB(1)334/03-04); and
- (c) Mandatory Provident Fund Schemes Statistical Digest — September 2003 (LC Paper No. CB(1)389/03-04).

III. Date of next meeting and items for discussion

(LC Paper No. CB(1)473/03-04(01) — List of outstanding items for discussion

LC Paper No. CB(1)473/03-04(02) — List of follow-up actions)

Regular meeting on 5 January 2004

3. Members agreed that the following three items be discussed at the regular meeting to be held on Monday, 5 January 2004, at 10:45 am:

- (a) Accrual-based consolidated accounts of the Government;
- (b) Agreement between the Hong Kong Special Administrative Region of the People’s Republic of China and the Kingdom of Belgium for the

Avoidance of Double Taxation (DTA) and the Prevention of Fiscal Evasion with respect to Taxes on Income and on Capital; and

- (c) Proposed changes to the directorate establishment of the Financial Services and the Treasury Bureau and Inland Revenue Department.

4. On paragraph 3(a) above, members noted that the Administration would brief the Panel on the first set of accrual-based government accounts for 2002-2003. On paragraph 3(b) above, the Administration would consult the Panel before initiating the legislative process to give effect to the DTA, which was the first comprehensive agreement to be signed by the Government in this respect. As regards paragraph 3(c) above, the Administration would brief the Panel on its proposals to delete and redeploy some directorate posts, and to make permanent a supernumerary directorate post to meet operational requirements. The Administration planned to submit the proposals to the Establishment Subcommittee on 11 February 2004.

Regular meeting on 2 February 2004

5. Members also agreed that the following three items be discussed at the regular meeting to be held on Monday, 2 February 2004, from 10:00 am to 1:00 pm:

- (a) Briefing on the work of the Hong Kong Monetary Authority;
- (b) Governance of the Hong Kong Monetary Authority; and
- (c) Functions and responsibilities between the Financial Secretary and the Monetary Authority in monetary and financial affairs.

6. On paragraph 5(a) above, members noted that it was a regular briefing to be given by the Chief Executive of Hong Kong Monetary Authority (CE/HKMA). On paragraph 5(b) and 5(c) above, members agreed that the Financial Secretary (FS) and CE/HKMA should be invited to attend the meeting for discussion of the governance of HKMA and the exchange of letters dated 27 June 2003 between FS and the Monetary Authority regarding their functions and responsibilities in respect of monetary and financial affairs.

IV. Examination of the regulatory work in respect of authorized institutions in the light of the “Report of the Special Committee on the Corporate Governance, Credit Approval Process, Risk Management and Internal Control Mechanism of Bank of China (Hong Kong) Limited”
(LC Paper No. CB(1)473/03-04(03) — Paper provided by the Administration)

7. The Chairman declared interest that he was a director of the Nanyang Commercial Bank Limited, a subsidiary of the Bank of China (Hong Kong) Limited (BOCHK). He invited the Deputy Chairman to preside over the discussion of Agenda Item IV. The Deputy Chairman took over the chair.

Briefing by HKMA

8. At the invitation of the Deputy Chairman, the Acting Deputy Chief Executive (Banking) of HKMA (Atg DCE/HKMA) briefed the Panel on the HKMA's approach in supervising authorized institutions (AIs) in Hong Kong and its supervisory response following the replacement of Mr LIU Jinbao as the Chief Executive of BOCHK in May 2003.

9. Atg DCE/HKMA advised that HKMA adopted a risk-based supervisory approach in supervising AIs. Under this approach, the intensity of supervision, the amount and focus of supervisory action in respect of individual AIs would depend on the assessment of risks associated with the institutions' business and adequacy and effectiveness of their risks control systems. The supervisory approach was based on a policy of "continuous supervision" through a combination of on-site examinations, off-site reviews, prudential meetings with the management, and tripartite meetings with the institutions and their external auditors. It was the responsibility of the management of individual AIs to ensure that the business of the AIs was conducted with integrity, prudence and competence. AIs were expected to have in place comprehensive risk management systems to manage their risks. In this connection, HKMA had issued guidelines and guidance notes to the banking industry specifying the standards and best practices to be adopted by AIs.

10. Atg DCE/HKMA further advised that following the sudden replacement of Mr LIU Jinbao as the Chief Executive of BOCHK in late May 2003 and the revelation that his removal might be related to a loan made to New Nongkai Global Investment Limited (the New Nongkai loan) which was under the control of Mr CHAU Ching-ngai, HKMA had sent in a team to review the loan. Moreover, pursuant to section 59(2) of the Banking Ordinance (Cap. 155), HKMA had required BOCHK to appoint two external auditors approved by HKMA, namely, Moores Rowland - to review and report on the bank's exposures to Mr CHAU and his affiliates (the CHAU group); and KPMG - to review and report on the bank's high level controls, credit approval processes, credit risk management, internal control mechanism and asset quality. In parallel, the board of BOCHK had set up a Special Committee to review, among other things, the credit approval, credit risk management and related internal control mechanisms for corporate lending of the bank, and had commissioned a full audit of the bank's interim results for the first half of 2003. On 5 September 2003, the Special Committee released its full report (the Special Committee Report) together with the major findings of the reports by the two external auditors along with the bank's interim results for the six months ending 30 June 2003. The three reports had recommended a number of improvement measures to enhance BOCHK's

management capability, credit approval procedures, risk management function, and high level controls. HKMA noted that the key issues identified in the three reports were being addressed by BOCHK, and the credit loss (if any) arising from the New Nongkai loan would not threaten the viability of BOCHK. HKMA was monitoring the implementation by BOCHK of the recommendations made in the reports.

11. Atg DCE/HKMA also pointed out that HKMA had conducted specialized examinations on ten AIs during June and July 2003 with a view to establishing that prudent lending policies, practices and procedures were being followed by the institutions concerned. The examinations had identified areas for improvement and the AIs concerned were required to take remedial actions accordingly. In conclusion, Atg DCE/HKMA stressed that all AIs in Hong Kong were subject to the same supervisory standards and regulatory requirements, and that the supervisory response of HKMA in respect of the case of BOCHK was in line with HKMA's usual practice.

Discussion

12. Mr James TO pointed out that the case of BOCHK involving the New Nongkai loan and the replacement of Mr LIU Jinbao had aroused considerable public concern. Mr TO explained that he had raised the item for discussion by the Panel because he was concerned about how HKMA discharged its responsibilities as the supervisor and regulator of the banking industry in respect of AIs that had given cause for concern, of which the case of BOCHK seemed to be a conspicuous example. Mr Albert HO concurred that it was appropriate for the Panel to discuss the policy issues related to the case of BOCHK so as to ensure that HKMA had discharged its responsibilities effectively in protecting the interests of depositors and maintaining the stability of the banking system. He stressed that the Panel's discussion was not to pinpoint problems of a particular AI.

Issues related to the case of BOCHK

13. Responding to Dr David LI's enquiry about HKMA's views on the reports of the two external auditors submitted by BOCHK, Atg DCE/HKMA said that HKMA was satisfied with the recommendations in the reports for improving the operation of the Credit Committee of BOCHK, the bank's high-level control framework and credit risk management framework. HKMA would follow up with BOCHK in its implementation of the recommendations including working out an appropriate timetable to complete the task.

14. Referring to paragraph 2 and Appendix 5 of the Special Committee Report, Mr James TO pointed out that the Special Committee had interviewed staff of BOCHK directly involved in the New Nongkai loan but not Mr LIU Jinbao. As the Special Committee had not interviewed Mr LIU, Mr TO doubted how the Special Committee could have reached the conclusion that Mr LIU should bear responsibility for the errors of judgement made in the process of approving the New Nongkai loan

(paragraphs 7 and 14 of the Report) and that Mr LIU had failed to discharge his duties as the Chief Executive of BOCHK properly (paragraph 22 of the Report). In this connection, Mr TO expressed concern whether it was appropriate for HKMA to accept the Special Committee Report. Ms Emily LAU and Mr Albert HO considered that as Mr LIU Jinbao was a key person in the case of BOCHK, his representations should be sought before the Special Committee and the two external auditors concluded their findings. Mr TO, Ms LAU and Mr HO were also concerned whether HKMA had, in reviewing the New Nongkai loan, interviewed Mr LIU or invited written representations from him.

15. In response, Atg DCE/HKMA confirmed that HKMA had tried to establish through its counterpart in the Mainland whether it would be possible to contact Mr LIU Jinbao. However, HKMA was advised that as Mr LIU was under investigation by the Mainland authorities, he could not be reached at the moment. Atg DCE/HKMA said that if the Special Committee and the two external auditors had had the opportunity of interviewing Mr LIU, it should have facilitated their understanding of the issues related to the case of BOCHK. However, the Special Committee and the two external auditors were unable to reach Mr LIU. Indeed, the Special Committee had acknowledged in its Report that it had not been able to address tentative findings of the Report to Mr LIU and therefore it had not had the benefit of Mr LIU's representations before making the Report to the board of BOCHK (paragraph 24 of the Report). Atg DCE/HKMA also pointed out that the Special Committee and the two external auditors had conducted their reviews by examination of documents, files and reports, as well as interviews with senior and key staff of BOCHK involved in the New Nongkai loan and internal control systems of the bank. HKMA noted that while the three reports had limitations, the reviews had been conducted with the best information available to the parties concerned. Atg DCE/HKMA remarked that should the Special Committee and the two external auditors choose not to make any conclusions in the reports in view of the absence of Mr LIU's representations, public concern about the case of BOCHK might not have been timely addressed and there might be delay in implementing the recommendations to improve the internal control mechanisms of the bank.

16. As HKMA had encountered problems in seeking cooperation from the Mainland authorities in meeting with Mr LIU Jinbao, Mr Albert HO and Mr James TO opined that if necessary, FS or the Chief Executive should raise the matter with appropriate Mainland authorities to resolve the matter. Mr CHAN Kam-lam remarked that the case of BOCHK had indicated the need for Hong Kong to strengthen mutual legal assistance with other jurisdictions. He suggested that HKMA should consider enhancing cooperation with the Mainland banking regulators and law enforcement authorities in undertaking supervisory actions on AIs.

17. In response, Atg DCE/HKMA clarified that HKMA, as the banking regulator in Hong Kong, had been working closely with the banking regulators in the Mainland on regulatory matters concerning AIs based in the Mainland. HKMA however had no

direct contact with the Mainland law enforcement authorities. It would be outside HKMA's purview to require the Mainland law enforcement authorities to assist in supervisory action concerning BOCHK. If Mr LIU Jinbao were found to have committed any criminal offences in Hong Kong, the matter should be sorted out by the relevant law enforcement authorities in Hong Kong, such as the Police and the Independent Commission Against Corruption, with their counterparts in the Mainland making use of existing arrangements between them.

18. Responding to Mr Albert HO's concern about the transparency in handling of the BOCHK case, Atg DCE/HKMA advised that from the outset, HKMA had encouraged BOCHK to enhance transparency in the process of the reviews. HKMA noted that BOCHK had issued various public statements in June 2003 and published the full Special Committee Report and major findings of the two external auditors' reports in September 2003.

19. Noting that the Special Committee had recommended that the board of BOCHK should consider addressing a note of the findings relating to Mr LIU Jinbao to BOC for such action as BOC deemed fit (paragraph 24 of the Report), Ms Emily LAU and Mr Albert HO considered that the case had not yet been concluded. They enquired about the follow-up actions to be taken by HKMA in this respect. In reply, Atg DCE/HKMA pointed out that HKMA did not know details of the investigations being conducted by the law enforcement authorities in Hong Kong and the Mainland relating to the CHAU group and Mr LIU Jinbao. However, HKMA would continue to cooperate with the law enforcement authorities in Hong Kong in relation to their investigation and maintain contact with the Mainland banking regulators to monitor development of the case in the Mainland. The follow-up actions to be taken by HKMA would depend on the outcome of the investigations by the law enforcement authorities in Hong Kong and the Mainland. Ms LAU, Mr HO and Mr James TO considered that HKMA should take appropriate actions to follow up the case.

Admin

20. Responding to members' enquiries, Atg DCE/HKMA advised that HKMA could not ascertain whether Mr LIU Jinbao had been informed of the findings relating to him in the three reports. Nevertheless, the Special Committee Report with the summaries of the two external auditors' report had been released and were now in the public domain.

HKMA's supervision on AIs

21. In view of the difficulty encountered by HKMA in investigating the case of BOCHK, Mr SIN Chung-Kai expressed concern about HKMA's capability in supervising AIs based outside Hong Kong. With a view to facilitating effective supervision of AIs, Mr SIN suggested that HKMA should consider imposing a requirement on chief executives or directors of AIs, as a condition of approval of their appointments, for them to come back to Hong Kong to assist HKMA in investigation

on matters relating to the Hong Kong operations of the AI concerned before their appointments were approved.

22. Atg DCE/HKMA stressed that in the past, HKMA had not encountered similar problems in soliciting cooperation from AIs and their senior management who had left Hong Kong to assist in investigating matters relating to the Hong Kong operations of the AIs concerned. He pointed out that the case of Mr LIU Jinbao was an individual incident. If HKMA identified any problems with an AI in the supervisory process, it would discuss with the institution to work out appropriate remedial actions. HKMA would impose sanctions on AIs for breaches of banking regulations. The most serious sanction was revocation of AI's licence. In case of suspected criminal offences, HKMA would refer the case to the law enforcement authorities for investigation and prosecution. As regards Mr SIN's suggestion, Atg DCE/HKMA said that approval criteria for chief executives or directors of AIs had to be in line with international standards and those adopted by other major financial centres. While he was not aware of such a requirement in other jurisdictions, he undertook to look into the practices of other financial centres to see if they had a similar requirement and inform Panel members of the findings.

Admin

23. Responding to Mr Albert HO's concern that HKMA had approved BOCHK's application for the new Chief Executive to replace Mr LIU Jinbao within a short period of time, Atg DCE/HKMA stressed that it had been the HKMA's practice to process applications for appointment of chief executives or directors of AIs as quickly as possible and the same policy was applied to all AIs regardless of their status or the individuals concerned. As regards the time taken for processing an application, Atg DCE/HKMA explained that this depended on the availability of the necessary information relating to the candidate in the application. In respect of BOCHK's application, as the new Chief Executive was already a director of BOCHK and HKMA was able to obtain comments on the candidate from the relevant Mainland authorities quickly, it was able to approve the application quickly. Apart from this application, there were many other cases in which applications for changes in the senior management of AIs were processed and approved within a very short timeframe.

FSTB's role

24. Mr James TO considered that the Financial Services and the Treasury Bureau (FSTB) had a role in monitoring how HKMA exercised its banking supervisory function. Noting that the subject officer in FSTB, i.e. the Principal Assistant Secretary for Financial Services and the Treasury (Financial Services)⁵, was seconded from HKMA, Mr TO expressed concern about the effectiveness of FSTB's work in this regard. He urged the Administration to review the matter and respond in writing.

(*Post-meeting note:* The Administration's response was circulated to members vide LC Paper No. CB(1)824/03-04(01) on 20 January 2004.)

V. Briefing by the Financial Secretary on Hong Kong's latest overall economic situation

(LC Paper No. CB(1)437/03-04 — Third Quarter Economic Report 2003 and the press release

LC Paper No. CB(1)473/03-04(04) — Paper provided by the Administration)

Briefing on the latest overall economic situation of Hong Kong

25. At the invitation by the Chairman, the Government Economist (GE) briefed Members on the latest overall economic situation of Hong Kong, the updated economic forecast for 2003 and economic outlook for 2004. GE highlighted the following points:

- (a) The Hong Kong economy rebounded distinctly in the third quarter of 2003, after the setback caused by the Severe Acute Respiratory Syndrome (SARS). On a year-to-year comparison, the Gross Domestic Product (GDP) rose by 4% in real terms in the third quarter. On a quarter-to-quarter comparison, GDP leaped by 6.4% in real terms in the third quarter after a 3.7% dip in the second quarter. Robust growth was seen in tourism-related sectors. The number of incoming visitors from the Mainland recovered swiftly in June and July 2003 after the SARS situation had been brought under control, and surged further since the launch of the “individual visit” scheme for the Mainland visitors to Hong Kong (the “individual visit” scheme) in late July 2003. Together with a further appreciable growth in offshore trade, export of services turned up to a 6.9% increase in real terms in the third quarter of 2003 over a year earlier.
- (b) There was a substantial rebound in local consumer spending across many of the major goods and services in the third quarter of 2003 upon dissipation of SARS impact. Investment in machinery and equipment also picked up distinctly as a result of the improved business outlook.
- (c) The labour market improved visibly with the seasonally adjusted unemployment rate fell from 8.7% in May - July 2003 to 8% in August - October 2003. The underemployment rate also declined from 4.2% to 3.5% between the two periods. The decrease in unemployment rate was rather broad-based, with particularly distinct declines in the sectors being hard hit earlier by SARS, including the retail trade, restaurants and hotels, transport, etc.

- (d) The property market turned more active in recent months. On residential property, trading activity in both the primary and secondary markets picked up. Prices for residential property increased by 2.9% in September over August 2003. The number of transactions in October and November 2003 were over 11 000 and 9 000 respectively. The market for office and shopping space also picked up. The local stock market exhibited a strong uptrend and the average daily turnover posted a three-year high, at \$12 billion, in the third quarter of 2003.
- (e) The decline in consumer prices narrowed in recent months along with progressive upturn in local economy activity. The year-on-year decline in Composite Consumer Price Index (CPI) continued to taper over, from 4% in July to 2.7% in October 2003.
- (f) On the economic situation in the rest of 2003, the Government expected that Hong Kong's exports of services would maintain its robust growth, underpinned by sustained recovery in inbound tourism and continued surge in offshore trade. In view of the recent revival in the economy, the Government forecasted that for 2003, GDP would grow by 3% in real terms against that of 2% forecasted in August 2003. The forecast Composite CPI rate for 2003 was -2.7%, slightly narrowed from the earlier forecast of -3% in August 2003.
- (g) As regards the economic outlook for 2004, the Government expected that the current trend of steady recovery would continue. Major positive factors included sustained improvement in the global and regional economies, the recent further weakening in the US dollar, increasing business opportunities resulting from the signing of the Closer Economic Partnership Arrangement (CEPA) between the Mainland and Hong Kong, and continuous growth in inbound tourism upon further expansion of the "individual visit" scheme.

Discussion

Future economic development of Hong Kong

26. Mr CHAN Kam-lam pointed out that despite recent recovery in the economy, some problems emerged which needed to be addressed. For example, the growth in offshore trade indicating the continuous shift from exports of domestic goods to re-exports might aggravate the local unemployment problem and weaken Hong Kong's competitiveness. Mr CHAN enquired how the Government could capitalize on the new opportunities opened to Hong Kong and what concrete measures would be implemented to address the various problems.

27. On the recent recovery in the economy, ES advised that the main impetus came from growth in offshore trade including re-exports and exports of services which had benefited sectors such as trade-related services, transportation industry and logistic industry. ES pointed out that with the advent of globalization in the world economy and the further integration of Hong Kong's economy with the Mainland, more local enterprises would shift part of their operations to the Mainland to gain advantage of the lower production cost. The Government envisaged that the trend would continue. This would inevitably have negative impact on the local employment situation. However, the fast growing Mainland market would offer a lot of opportunities for Hong Kong and it was believed that greater economic integration with the Mainland would bring benefits to Hong Kong. To maintain Hong Kong's competitiveness, it had to build on its existing strengths, to upgrade the quality of human resources, to develop high value-added industries, and to provide a business-friendly environment. On future economic development, ES advised that financial services, logistics, tourism, and producer and professional services remained the four core industries for Hong Kong. The Government would step up efforts to promote these industries and help them explore new markets.

28. As regards measures to facilitate the growth in inbound tourism, ES pointed out that the Administration would strengthen manpower support and improve facilities at various ports and border control points to meet the needs of visitors. Recognizing the problems arising from the growth in inbound tourism, such as increase in crimes associated with the "individual visit" scheme, the Administration had deployed more resources to deal with them. In this connection, ES advised that the Immigration Department and the Police had been allocated with more resources to cope with their increasing workload in this regard.

29. Quoting the high terminal handling charges at Hong Kong ports as an example, Mr Kenneth TING shared the concern about decline in Hong Kong's competitiveness and urged the Administration to review the charges. In reply, ES said that the Administration was aware of the problem. He undertook to discuss the issue with the Secretary for Economic Development and Labour.

Admin

30. Mr Albert HO considered it essential for the Government to continue to invest in education and upgrade the quality of the work force in order to meet the needs of Hong Kong's technology-based and knowledge-based economy in the long run and help low-education and low-skilled workers to find jobs. As such, he expressed concern about the adverse impact of the Government's plan to reduce public expenditure on the education sector.

31. In response, ES said that he fully appreciated that human resource was an asset of Hong Kong and that it was important for the Government to invest in education for the economic development of Hong Kong. However, under the present stringent fiscal position, the Government was obliged to control its operating expenditure so as to ensure the most effective use of the limited resources. In this connection, ES

pointed out that resources allocated for the education sector in 2004-2005 was comparable to those in 2003-2004. ES welcomed more public debate on the subject, adding that it was for the community to decide how limited public resources should be allocated.

Addressing the unemployment problem

32. Notwithstanding recent improvement in the labour market, Ms Emily LAU pointed out that unemployment problem was still serious in the low-income and low-education segments of the work force. Noting that the number of households with average monthly income below \$4,000 had increased drastically from 85 000 before 1997 to over 200 000 recently, Ms LAU was concerned about the widening gap between the rich and the poor.

33. In response, ES pointed out that globalization in the world economy had widened the gap between the rich and the poor in many economies, including Hong Kong and the Mainland. He said that while the Government was cautiously optimistic about the economic outlook for Hong Kong, it recognized that Hong Kong still faced a lot of challenges in tackling the unemployment problem. He agreed that the current unemployment figure was unacceptable and re-iterated Government's commitment in improving the employment situation. ES however stressed that the private sector should take the lead in creating employment while the Government should facilitate the market and its development. The Government would continue to improve the economic and business environment of Hong Kong through reviewing regulations, and streamlining procedures and requirements with a view to attracting more foreign investments and facilitating business operations. He stressed that concerted effort by the community and the Government was crucial for solving the unemployment problem and promoting the economy. In this connection, he welcomed views and suggestions from the public and Members. ES pointed out that since he took up his post in August 2003, the community and the business sectors had put forward a lot of ideas and proposals for his consideration. These included providing incentives for industries to move back to Hong Kong and setting up a special industrial area near the boundary between Hong Kong and Shenzhen. He expected that through CEPA high value-added industries could be attracted to Hong Kong. On the other hand, the Task Force on Employment had been studying various related issues and examining different proposals to tackle the unemployment problem.

34. Miss CHAN Yuen-han pointed out that Hong Kong was facing a structural unemployment problem. She was disappointed that the Government had not devised concrete measures to create and increase employment opportunities. She urged the Government to step up efforts in protecting intellectual property rights in Hong Kong, promoting Hong Kong products in overseas markets, capitalizing on the opportunities of CEPA and making the best use of Hong Kong's talented work force to enhance and improve employment opportunities.

35. In response, ES re-iterated that in tackling the unemployment problem, the Government acted as the facilitator of the market while the private sector was the driver of economic growth and the main provider of jobs. He pointed out that Hong Kong was undergoing economic re-structuring. Development in manufacturing

industries had to take on new elements including creativity, high technology and value-added. As regards the first element, ES advised that there would be concrete proposals in the 2004-2005 Budget to promote the development of creative industries in Hong Kong. On exploring markets for Hong Kong products, ES advised that there were arrangements under CEPA to facilitate Hong Kong products to access the Mainland market.

36. Miss CHAN Yuen-han called on the Government to establish a high level committee comprising representatives from the Administration, business sector, professional bodies and labour unions to devise and consult the public on the proposals to make use of the opportunities of CEPA for enhancing employment opportunities and promoting economic development so as to tackle the structural unemployment problem. ES advised that the proposal was similar to the one raised by Ms Emily LAU for the Government to form a committee to formulate comprehensive strategies and policies for economic development of Hong Kong. The Administration was considering the need to set up such a committee.

Admin

37. Ms Emily LAU enquired about the estimated number of jobs created as a result of the "individual visit" scheme and CEPA. ES said that the Administration had yet to compile the relevant figures. Ms LAU requested the Administration to provide the relevant figures. At the suggestion of the Chairman, ES undertook to provide the relevant information in due course.

Issuance of Government bonds

38. Mr SIN Chung-kai enquired about the details and progress of the Administration's plan to issue Government bonds. Given that the interest rates might increase in the near future, he was concerned that such an increase would raise the cost of the project.

39. In reply, ES pointed out that Hong Kong's current bond market, which mainly consisted of debt papers issued by large corporations, was relatively small and inactive as compared with international financial centres in Europe and the United States. The issuance of Government bonds would help promote the development of Hong Kong's bond market, increase its liquidity, and offer an additional investment avenue for the public. With the robust financial infrastructure, Hong Kong had the potential to become the Asian bond market. This would reinforce Hong Kong's status as a premier international financial centre, bring benefits to Hong Kong economy, and increase employment opportunities in the long run. ES said that given the current low interest rate environment, the Government considered that the issuance of Government bonds a viable option for funding capital projects which would bring long-term economic benefits to Hong Kong. The purpose of issuing Government bonds was not to finance recurrent expenditure of the Government. Having regard that bonds of five-year maturity had been well received by Asian investors, the initial plan was to issue Government bonds of five-year term under a regular programme.

Given the current environment of low interest rate might not last very long, the Administration would make a decision on the launch of the first tranche of bonds within the coming six months.

VI. Any other business

40. There being no other business, the meeting ended at 12:15 pm.

Council Business Division 1
Legislative Council Secretariat
20 January 2004