

Views on the Economic Benefits of the Disney Project
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(I) Introduction

The major reason that the government has put forward to support the Disney project is it would bring "huge" economic benefits to Hong Kong. My present submission therefore concentrates on the government's assessment of the economic benefits of the Disney project. I take the view that, because of a number of controversial assumptions adopted in the assessment, substantial doubts remain as to the magnitude of the potential economic gain that the project could bring to Hong Kong. Section II sets out some of my major queries, followed by Section III, which sets out some suggestions in taking the matter forward.

(II) Queries

1. Number of attendees unlikely to grow continuously

In all scenarios considered, and for all three categories of attendees, namely local residents, base tourists, and induced tourists, attendee numbers are projected to rise continuously from 2005 to 2024, the year when the capacity of the Park is reached. Beyond 2024, the Park is projected to stay saturated every year until 2044.

These are optimistic projections, bearing in mind that a variety of negative factors could arise in the planning period. Such factors include, the Park losing appeal among customers, changes in customer tastes and fashion, competition arising in South China, and economic downturn. The impacts of some of these factors should be incorporated into some of the "scenarios".

2. Assumptions on market penetration rates

The penetration rate for local residents is assumed to be in the region of 15% to 23%, depending on the particular scenario under consideration and the year. In other words, one in seven to one in four local residents (of all ages and means) is projected to visit the Park every year throughout the planning horizon. This level may be attainable in the beginning when curiosity among the public is high. Whether this level can be maintained one or two decades after is doubtful, taking into consideration the relatively high level of per visitor spending at the Park.

The penetration rate for base tourists is assumed to be in the region of 12% to 15.8%, again depending on the scenario under consideration and the year. One should note that, according to published data, around half of Hong Kong's base tourists have been repeat visitors. Repeat visitors cannot be expected to visit the Park every time they come to Hong Kong. Only non-repeat visitors would have an interest to visit the Park. The assumption amounts to saying that 24% to 31.6% of non-repeat visitors (one in four to one in three) would visit the Park, certainly an unrealistically high level.

3. How is the number of induced tourists estimated?

The number of induced tourists depends on the cost of visiting Hong Kong, the cost of visiting the Park, the economic situation of the source country, the exchange rate of Hong Kong dollar, the availability of competition, and a host of non-economic factors. The assumption that the number of induced tourists is a simple fraction of the number of base tourists is too simplistic. Of course, it is impossible to predict the number of induced tourists accurately, given that the Park is one-of-a-kind. It is important nevertheless to study a number of scenarios with different levels and trajectories of induced tourists and check the sensitivity of the bottom line to these scenarios.

4. Projection of base tourist growth too optimistic?

The number of base tourists is assumed to grow by 3.3% (Scenario F) to 5.0% (Scenario A). This may be a prudent assumption judging from arrival data for the past two decades, when tourism experienced rapid growth. The future may turn out to be rather different. In fact, tourist arrivals have stagnated since 1995, two years before the Asian financial crisis. The experience since 1995 could be more indicative of future growth than the experience in the past two decades. As induced tourist number is assumed to be a fraction of that of base tourists, over-estimating base tourists leads to over-estimation of induced tourists as well.

5. Spending projections

It has been assumed by the government that the per diem spending pattern of induced tourists is the same as that of base tourists. One should expect however that induced tourists have spending pattern that is very different from that of base tourists. For instance, more than half of the spending of base tourists is on shopping and less than 10% is on entertainment. Not much variation exists across various source countries. The proportion of children (15 years or less) among base tourists has been less than 5% of total. Assuming that spending pattern of base tourists and induced tourists are the same could over-estimate the total spending of the induced tourists by a large margin.

6. Secondary value added contribution

The secondary value added contribution used in the government's analysis is exceedingly large, almost as large as the primary contribution. Particularly intriguing is the contribution of shopping spending, whose secondary contribution is twice as large as its primary contribution. Without access to the underlying supporting analysis, one would guess that the large estimate arises from the large gross profit margin of high-end retail shops. One would not expect induced tourists to patronize these high-end shops.

7. Assumptions on visitors per guest ratio

It has been assumed that visitors per guest ratio is larger than one in all scenarios and for all attendee categories. The rationale is unclear.

8. Removing Barriers to Visitor Entry brings large gains by itself

The largest source of attendees to the Park will be Mainland residents, and their proportion is projected to rise as time goes by. This would necessitate policy changes in removing obstacles to the inflow of Mainland visitors and streamlining visa-issuing procedures. As the number of Mainland visitor arrivals has been artificially constrained, these policy changes would by themselves increase tourist arrivals and tourist spending, even in the absence of a theme park, and of course, in the absence of large-scale investment. Only part of the economic benefits that Hong Kong derives is therefore attributable to the Disney park project.

(III) Suggestions

Projection of any kind is subjective and error-prone, let alone one that spans four decades in a fast changing world. The degree of potential variation is very large indeed. The logical approach is to enumerate the risk factors and do a sensitivity analysis that is relatively encompassing, covering especially some of the downside scenarios. More specifically, I have two suggestions to make.

Enumerate risk factors

The government should enumerate the downside risk factors. The Disney project is different from the infrastructural projects that the government is familiar with. Infrastructures such as roads, airport, and railway are more generic in nature. That is to say, the demand for such infrastructures is much more stable and predictable. One might add, at this juncture, that traffic flow projections of the government even in the case of the airport and tunnels have not always turned out to be precise. In light of this, an extra margin of error should be allowed in the case of the Disney project. The enumeration of risk factors is important because higher risk calls for a higher hurdle rate of return.

One can also argue that the upside potential of the Disney project is rather limited. As the capacity of the Park is limited (10 million attendees a year) and is expected to saturate well within the planning period, a rate of return in excess of the government's projection is hard to visualize.

Consider more pessimistic scenarios in sensitivity analysis

To establish the robustness of the government's conclusion, one should adopt more "pessimistic" assumptions and ask under what conditions would the project fail to be profitable. I have suggested above some directions for "pessimistic" assumptions.

Conclusion

I have no pre-conceived notion as to whether or not the Disney project is desirable for Hong Kong. If I were to do the benefit-cost analysis, I would take the above queries into consideration and repeat the analysis under more "pessimistic" scenarios. Whether the rates of return under the expanded set of scenarios are considered acceptable in view of the amount of inherent risks is ultimately a decision that is up to this Council to make.