

Briefing Paper

Economic Assessment of the Hong Kong Disneyland Project

Introduction

This paper sets out in concise terms the methodology, key assumptions and main results of the Government's assessment of the economic viability of the Hong Kong Disneyland Project (Phase I of the theme park). Essentially, it involves identifying and estimating the various components of economic benefits, to be matched against the corresponding economic costs. Then, viability indicators are derived in regard to the cumulative net economic benefit over cost, economic rate of return, benefit/cost ratio, and economic pay-back period. The robustness of the economic case for the project can be judged from these quantified viability indicators.

Methodology

2. The methodology employed for assessing *economic benefits* of the project involves *firstly* projecting the level and composition of attendance at the theme park, *secondly* estimating the additional spending of attendees, and *thirdly* assessing the value added or income, as well as additional employment, that can be derived from such additional spending.

3. Attendance broadly comprises existing tourists who would have come to Hong Kong anyway but will spend additional time in Hong Kong to visit the theme park (base tourists), additional tourists being induced by the theme park to come to Hong Kong (induced tourists), and local residents.

4. Spending covers those of attendees both in the theme park and elsewhere in Hong Kong, over and above what would have been spent without the theme park.

5. Value added will be accrued as profits of the respective business establishments and employment income for the workforce involved. The sectors of economic activity concerned are the theme park operation itself, as well as the retail, hotel, restaurant, transport and other tourist-related industries in the territory, and the local airlines.

6. As to *economic costs*, the major components are the land formation and infrastructure costs in respect of the Penny's Bay site, and the superstructure and facilities erection costs for Phase I of the theme park.

Key assumptions

7. A number of projections and assumptions have to be made for conducting the economic assessment. Also, by varying these assumptions along their possible range, different scenarios can be formulated for the analysis. In the present assessment, six scenarios are so formulated.

8. Scenario A as the Base Case represents a prudent view of what is likely to happen. The Government, with the assistance and input of its financial advisers, considers that the Base Case forms a reasonable basis for conducting the economic assessment. The major input assumptions for the Base Case are those of the Government. Scenarios B to F adopt even more cautious and conservative assumptions than those in Scenario A.

9. The Base Case is certainly not the most optimistic assessment. An independent economic assessment carried out by Walt Disney's consultants suggests that considerably higher return might accrue to the Hong Kong economy.

10. The various key projections and assumptions for Scenarios A and F are depicted below:

	<u>Scenario A</u>	<u>Scenario F</u>
Projected average annual growth rate of base tourists (2005-2020)	5.0%	3.3%
Ratio of induced tourists to base tourists (%)	10.8-13.8	8.8-11.8
Market penetration rate (%)		
Local residents	19-23	15-19
Base tourists	15.5-15.8	12
Induced tourists	100	100
Visits per guest ratio		
Local residents	1.35	1.35
Base tourists	1.17	1.17
Induced tourists	1.15	1.15
Additional length of stay for base tourists (nights)	0.5	0.2
Crowding-out effect on spending by local residents (%)	0	50

Assessment results

11. Matching the quantified economic benefits against the economic costs to be incurred, it is estimated that the *net economic benefit* will amount to \$148 billion in Scenario A, as compared to \$80 billion in Scenario F. The key *economic viability indicators* for these two scenarios, which can be judged as highly robust certainly for Scenario A and even for Scenario F, are summarised below:

	<u>Scenario A</u>	<u>Scenarios F</u>
Net economic benefit in present value over 40 years (in terms of the cumulative value added contribution to GDP)	\$148 billion	\$80 billion
Economic rate of return in real terms	25.0%	16.9%
Benefit/cost ratio in present value terms	8.1	4.9
Economic pay-back period in years from opening (i.e. when the cumulated economic benefits just offset the total economic cost)	5	7
Additional employment created directly and indirectly from the theme park operation		
At opening in 2005	18 400	11 400
In Year 20	35 800	18 100

In addition, it is estimated that, prior to the opening of the theme park, land formation and infrastructure construction will generate value added amounting to around \$12 billion in present value terms, and erection of the theme park and its associated facilities value added amounting to around \$9 billion in present value terms. As to additional employment created during these two stages of construction, it is estimated at 10 000 and 6 000 respectively in man-years.

12. Besides the substantial quantified economic benefits as assessed, the theme park can be expected to also bring about significant non-quantifiable benefits. It will no doubt enhance the international image of Hong Kong as a cosmopolitan city, and in particular strengthen the position of Hong Kong as a major tourist centre in Asia. It will also help transfer Walt Disney's strong edge in quality standard, technological innovation, staff training and environmental alertness to the rest of the economy. Moreover, it will help enrich the quality of life of Hong Kong people, by having close access to a world-class theme park with high-quality recreational facilities.

Appendix: The full assessment paper is attached.

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