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$127b project seen as growth booster

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THE $127 billion airport and port facilities project, the largest ever undertaken in Hongkong, was yesterday viewed by economists as assurance that Hongkong's growth is not impeded by a lack of infrastructure.

Construction was expected to add about 1.5 per cent annually to Hongkong's GNP between 1992 and 1998, and was not expected to adversely boost Hongkong's inflation rate during construction.

It is also not expected to significantly burden the ability of the Hongkong Government, with its huge reserves, to pay for it.

The Governor Sir David Wilson announced yesterday the new two-runway airport at Chek Lap Kok will begin operations in early 1997. A high-speed rail system and highway will pass through North Lantau to Tsing Yi Island to connect it with Kowloon.

A new port will be built at North Lantau, with another on the coastal strip west of Tuen Mun.

Hongkong Bank's economic research department's manager Dr Alan McLean said the speech left unclear the financial viability of the project.

Sir David said: "The Government believes that many of the individual projects connected with the new airport and the expansion of the port will be commercially viable".

Dr McLean said this implied that some part of the projects might not be financially viable.

"It will bring a small increase in the GNP growth during that (construction) period," he said. C K Law, deputy director of the economic research division of BT Brokerage (Asia), put the annual growth to the Gross Domestic Product from the huge project between 1992 and 1998 at about 1.5 per cent.

As to inflationary pressures caused by the huge project, Dr McLean noted that it would be several years before spending on the project was large enough to make an impact.

Dr Law forecast that Hongkong's inflation rate would be maintained at an about 10 per cent annually into the 1990s.

Clarina Man, economic researcher at Bank of China's Hongkong-Macau regional office, noted the annual investment sums would not be large when compared with the GDP,

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and would not fuel inflation. However, Jason Kwok, senior economist of the Bank of East Asia, said as the project would stimulate the economy, one trade-off would inevitably be higher inflation.

Dr Law didn't expect the project to put financial pressure on the Government, as more than 70 per cent of the investment might come through the private sector.

He calculated that the Government's total reserves could reach $70 billion by the end of this fiscal year. In addition, he noted that $7 billion has been reserved in a development fund by the Government in the past year for infrastructure development in the territory.

There is another $14 billion in the Land Development Fund which could be used for infrastructrure construction.

Dr Law forecast that Hongkong's stable growth in the near future would allow the territory to carry the investment.

Still to be worked out is just how much of the project would be funded by Government, and how much from the private sector.

Sir David said only that both local and international developers would be keen to co-operate. Funding details will be announced shortly.

Dr Law saw several channels in which private money would come into the project, with foreign construction contractors and financial institutions in Hongkong putting up as much as 70 per cent of the $127 billion price.

He expected a number of foreign construction contractors, some from Japan and Europe, to try and participate in the development. "Most contractors in the territory have insufficient experience and techniques on constructing an airport," he stressed.

If foreign contractors successfully take part in the project, Dr Law said the Export and Import Banks of their home countries could well put up some financing.

He noted that some consortiums in Hongkong had expressed interest in the project, and they might together take part in construction of secondary facilities.

Dr Law said the airport must be owned by the Hongkong Government as landing rights were involved. He believed the new airport could make a contribution to the Hongkong economy even after its completion.

The airport could require 10,000 workers at a time of an existing labour shortage in Hongkong. Sir David said the Government may have to consider "exceptional circumstances" to obtain workers. Dr Law expected further relaxation of the controls on imported labour despite the voices likely to be raised against it by the labour organisations.