

## **A New Private Airport**

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Last October, the government revealed a plan to invest \$127 billion over the next 17 years on expanding the container port, airport, and transportation network in Hong Kong. Commentators have welcomed the proposal as a renewed commitment by the government in Hong Kong's future at a time when public confidence is at a low ebb.

The government also announced that an estimated 40 percent of the investment would come from the private sector. Investing in long-term infrastructure projects involves working extensively with the government; politics will matter enormously. With 1997 on the horizon, an investor has to deal not only with the present government but also the future SAR government. This increases the risks involved, and investors have to be suitably compensated. Privatizing the infrastructure is a good way to encourage private investment. Economically it ensures that the projects are worthy, for otherwise investors will not risk their money. Economic worthiness is a comforting thought to a jittery public.

A privately owned airport will attract more investors. Owners of the airport would have an incentive to ensure that it will be better utilized through more efficient pricing. They would welcome proposals to liberalize air services agreements with foreign countries and to facilitate competition among airlines and air freight carriers. More competition increases the demand for flights and for the utilization of airport facilities, translating into benefits for passengers, firms, and the public at large. Investors in related infrastructure developments also gain from a more efficient airport.

A publicly owned airport operated by an airport authority would have much less incentive to auction off landing time slots and to facilitate competition in aircraft maintenance and air freight handling. The carpark at Kai Tak Airport provides a vivid illustration. It is unsurprisingly one of the few remaining carparks in Hong Kong where the gates are not manned automatically. Inefficiency is obviously better tolerated in public enterprises than private ones.

An airport authority is also much more susceptible to political lobbying from interested parties than a privately owned airport. Private ownership of the airport makes it more likely

for government to favor liberalizing air services agreements and competition among airlines. An airport lobby will compete for government's ear along with the airline lobby.

The goal of private involvement in infrastructure development is to aim at privatizing as much of the facilities as is economically feasible. This is the best way to put the \$127 billion to work for our future: to build prosperity and confidence. The nature and extent of private participation in the projects will be scrutinized by the public for evidence of how financiers and developers view the future of Hong Kong. They know that unlike the government, which spends other people's money, businessmen who spend their own money cannot afford to be less hard-headed. The worst scenario is to find the government being compelled to finance the projects through raising taxes or issuing bonds. Confidence is not fostered by forcing the public to foot the bill.

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