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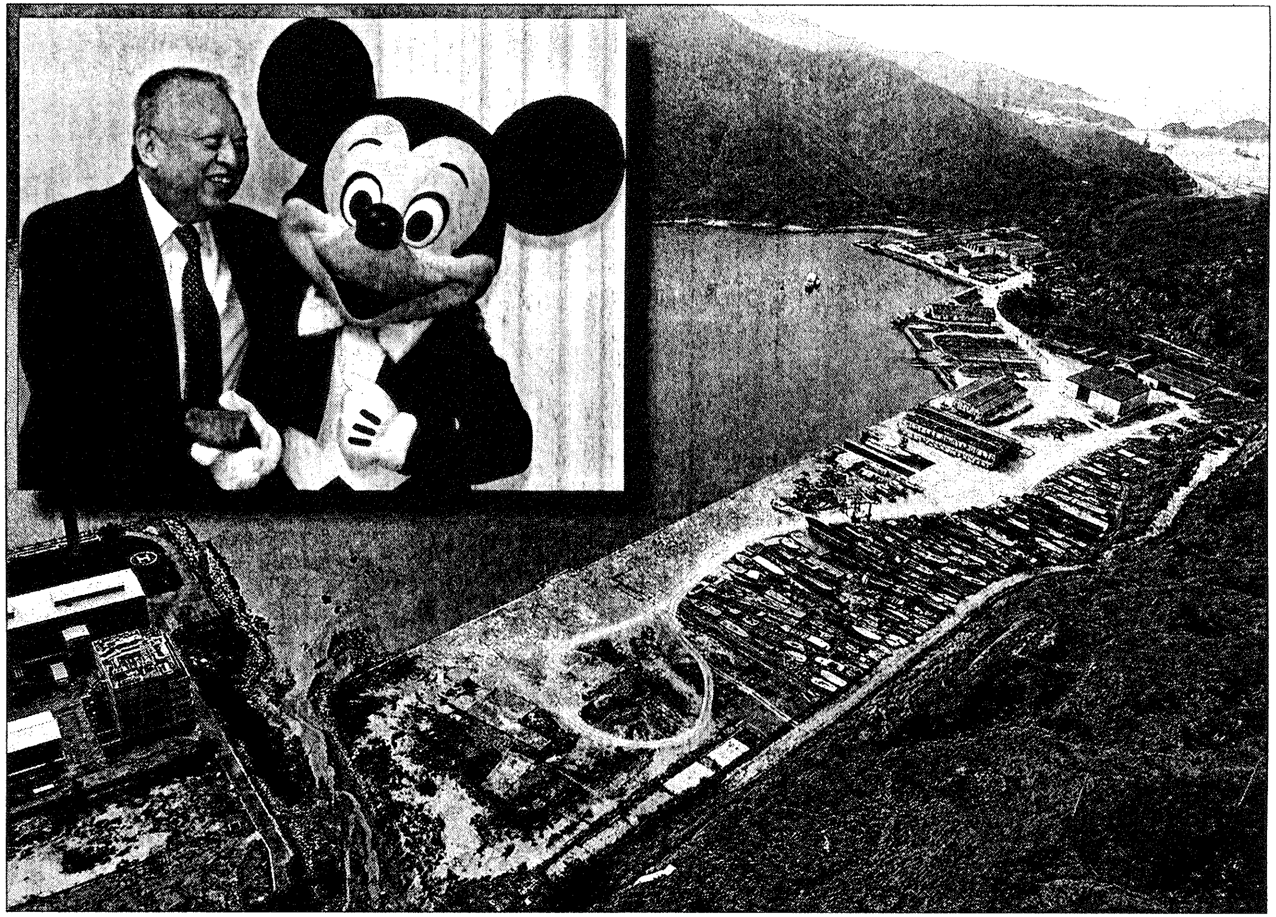
Mickey Mouse to fill role left empty by empire

Rahul Jacob, **Christopher Parkes** and **Ho Swee Lin** on Hong Kong's gamble to revive its lacklustre tourist industry



Tung Chee-hwa (inset) welcomes Hong Kong's latest partner to Penny Bay on Lantau Island, the site of the US$1.8bn theme park Reuters

Yang Ti, a tailor from Shanghai, was enjoying a family outing last Sunday to Hong Kong's Ocean Park, a rundown amusement park with a mishmash of attractions. But it was the prospect of visiting Disneyland that really excited him. "I would of course like to go to Disneyland in the US but it is too far and expensive. Having it in Hong Kong would be good," said Mr Yang.

Hong Kong has taken a big bet that millions of visitors from China and elsewhere in Asia will be equally enthusiastic about visiting Disneyland in Hong Kong.

Hong Kong's investment is large but it is expecting rich dividends. As a destination, it needed a magic ingredient to restore the lustre it enjoyed until July 1997 as the last British colony in Asia. The government believes that Disney will do the trick, positioning Hong Kong as *the* city to visit in Asia. The park is expected to appeal most to visitors from Asia who already make up the vast majority of Hong Kong's arrivals and continue to be its fastest-growing segment. "Disneyland is more than just a commercial enterprise. It is the future of the tourism industry," said Henry Tang, a member of the executive council, an advisory body for Hong Kong's chief executive.

Discussions with Disney began last October when the territory was in the midst of its most serious recession in a generation. The downturn highlighted the need for Hong Kong to wean its economy off its addiction to the property industry. Visitor arrivals fell dramatically soon after Hong Kong's handover to China, which unhappily coincided with the beginning of the Asian financial crisis. The economy has begun to grow again – 0.7 per cent in the second quarter – and the theme park's opening is still more than five years away, but the Disney deal has an important symbolic value.

"You cannot put a price on the message that the Walt Disney company sends to the world in choosing Hong Kong for its third international theme park destination," said Anson Chan, the government's top civil servant. Nevertheless, the government went about doing just that, estimating the multiplier effects of the deal in extravagant terms. Hong Kong said that the deal would generate additional indirect employment of 18,400 at its opening in 2005 and deliver a net benefit of HK$148bn over 40 years.

Hong Kong may have needed Disney but Disney needed the Hong Kong deal nearly as much. It has lost some of its lustre too; its stock is down 15 per cent this year. Theme parks represent a disproportionate percentage of its operating profits. In its last fiscal year they accounted for a quarter of Disney's revenues but a third of its operating profits.

Theme parks also represent a potentially profitable route into China, where profits from movie receipts have proved elusive. Hong Kong is a way for Disney to hedge its bets on the Chinese market. Shanghai made no secret of its desire for a Disneyland but Hong Kong offered far superior infrastructure, deeper government pockets and better access for the rest of Asia. Hong Kong also boasts a more affluent local market, although most mainland Chinese, including Mr Yang, the tailor, would find Disney's entry fees a little steep.

For all the deal's benefits for Hong Kong, it is hard to see how Disney is compensating Hong Kong for what it is getting. A reliable element of Disney's charm, however, is that governments often fall under its spell.