

Realising the Economic Value of Hong Kong's Harbour

Executive Summary

The economic value (rather than the financial value) of Hong Kong's harbour is often undervalued and decisions made regarding its use and stewardship do not accurately reflect the true value it offers our community. Instead, the value of Hong Kong's harbour largely depends upon market revenues such as land prices or local jobs.

Hong Kong's harbour has many values associated with it. It provides for example:

- A resource for recreation, leisure and tourism
- Vital ecosystem services – such as climate regulation, air circulation, flood management and carbon storage
- Habitats for wildlife
- Commercial marine activity
- Commercial activity
- A symbolic global brand identity for Hong Kong

Some of these values are reflected in market transactions and are priced. These are the financial values. But financial values are only one part of total economic value.

Total economic value also includes values that are unpriced as they are intangible in nature and quantifying and measuring such unpriced values is often difficult and complex. The reason for this is, in part, because many of the important and quite real goods and services provided by natural assets such as the harbour cannot be precisely defined or accurately measured. Additionally, environmental values are not directly priced in markets so when there is damage to the harbour, e.g., pollution or its shrinkage through reclamation, there is no single measure of value to reflect the associated loss in environmental and social 'services'.

Environmental economists apply a number of techniques to value the environment. One technique involves tradeoffs, and in evaluating such tradeoffs a number of 'valuation' techniques are available, including direct costs, hedonic pricing and contingent valuation. To some this may seem inappropriate in that it puts a 'price tag' on nature. In fact, however, it is not the environment or nature itself which is being measured or valued, but rather the values or tradeoffs which people place on the 'services' offered by the environment.¹

¹ CIWEM, p. 4., loc. cit.

The concept of unpriced value is expanded further in Professor Bill Barron's paper *Maximising the value of Hong Kong's harbour* (overleaf). From his study two things stand out. First, there is a lack of concern for the unpriced value of the harbour and decisions relating to the harbour tend to focus on the 'opportunity costs' in terms of commercial land sales (and their resulting revenues). From the standpoint of an 'economic' analysis total value for the harbour front is certainly not being optimised and when we consider only a subset of the full set of values, we are unlikely to maximise 'returns' from assets; man-made or natural. Second, we are making decisions about the harbour with little regard for how unpriced values change at the margin. 'Utility theory' (and indeed 'price theory') tells us that the 'value' of each unit of goods or service depends to a significant degree on how much or little we have of it.

At best there is a 'balance in expansion' or a 'balance' in terms of future development. In other words harbour front amenity spaces typically come in a package coupled with more roads, commercial property development, etc. Yet from a marginal value perspective, such a 'balance' for new development would only make sense if the existing split in land uses were not so heavily skewed toward priced values and away from unpriced ones.

An alternative form of contingent valuation is *willingness to pay*, which determines the amount an individual is willing to pay for goods or services. In support of this technique, HBF recently commissioned a contingent valuation study that examined how much people resident in Hong Kong were willing to pay for improved planning and development of the harbour beyond or outside the considerations of costs and revenues of specific development projects. This is the first time such a study has been undertaken in Hong Kong and the outcome provides a new and powerful view of the value of Hong Kong's harbour.

- Hong Kong's community values harbour improvements at HK\$73 billion and HK\$69 billion under two alternative scenarios
- Land values of alternative scenarios for the central reclamation range from HK\$8.5 billion to HK\$37.3 billion
- This study assists in understanding the trade-offs in harbour planning and development
- Wider policy implications suggest revisiting priorities for planning and development of the harbour

Such a high dollar value should provide evidence to Hong Kong's decision-makers that harbour planning and development is a priority and government revenue-generating land uses may not be the best solution for the harbour front.