

## IMPROVING QUALITY OF TOURIST TRAFFIC SERVICE BY PUBLIC-PRIVATE PARTNERSHIP IN HONG KONG

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**Abstract:** *Improving Quality of Tourist Traffic Service by Public-Private Partnership in Hong Kong.* Launched in 1997 in Hong Kong Smart Card Octopus is nowadays the largest functioning intersectoral integrated payment charging system. This solution plays a very important role in the tourist traffic service, being a significant facility for the visitors coming to this attractive region. Smart Card Octopus is a part of marketing policy instrument, effectively stimulating consumption of tourist and recreation services. This event was implemented based on public - private partnership forms. PPP has been becoming more and more popular instrument of financing investments, finding its application in a larger number of human activity areas. Also tourist and recreation branch is predestined to implement public - private partnership.

**Key words:** tourist traffic service, public-private partnership, integrated payment systems, financing investments, marketing policy instrument

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### **The operational concept of public - private partnership**

The term of private-public partnership in literature often functions under an abbreviation of PPP. It describes different cases of partnership between representatives of private and public sectors. The most popular definition, proposed by The National Council for Public-Private Partnership defines it as follows: "*a Public-Private Partnership is a contractual agreement between a public agency and a private sector entity of commercial features*". Through this agreement, the skills and assets of each sector are shared in delivering a service or facility for the general use<sup>1</sup>. Due to the period of time in which the events take place, the partnership is assumed to be long-term. Its assignment is to work out the profits anticipated by both sides and reach the planned public and commercial targets of the enterprise by the participants.

The mentioned definition should not be narrowed down to contacts between one public agency and one private sector entity. In the recent economic conditions there are a lot of casual and permanent, direct and indirect, one or multi-level connections between the units of these two sectors. There are cases of PPP projects, where the public sector agency indirectly implementing the project is a government agency. But a significant role is played by public units of supervisory specifications or the government itself. More and

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<sup>1</sup> The National Council for Public-Private Partnerships, [www.ncpp.org](http://www.ncpp.org).

more often local government units are examples of this practice. On the side of the private sector, the PPP venture can be realized not only by a private, commercial entity, being the direct partner of the public sector but also by the creditors of this entity, its shareholders, subcontractors, suppliers, etc.

### **Potential areas of implementation and chosen exemplary cases of public-private partnerships**

The idea of cooperation under public-private partnership is predestined to be implemented in many fields of economical practice, especially in the areas, where functioning solutions have not passed the test so far or where further progress is to be made. The most popular fields of implementation of the PPP conception are with no doubt: thermal-power industry, water and sewage engineering systems, waste management, municipal areas and public objects management, medical services, education, the defence sector, property management, green area administration, the penitentiary infrastructure, telephone and internet administration, public transport, municipal payment system.

Public-private partnership has recently found its implementation giving very good results in economic practice of many countries in different parts of the globe. A large number of realized enterprises in almost all sectors take place in United States of America, where for example a private entity is managing Central Park since 1998<sup>2</sup>. In Mexico there is a PPP program managing and exploiting the highways and in Mexico City a private entity is managing the water-sewage system<sup>3</sup>. In Canada, British Columbia and Quebec provinces are restructuring the road infrastructure. Many PPP projects are also implemented in South America. For example in Brazil owe to PPP widely comprehended infrastructure is being industrialized and in Buenos Aires the largest so far Argentinian PPP worth 4 billion dollars, focusing on improving the sewage system and potable water distribution was updated in 1990<sup>4</sup>. In December 2001 Chilean government and private economic entities were involved in a program supplying electricity to the neglected country areas of Chile, using extensive alternative energy sources: solar, water and wind power. In Republic of Columbia in 1995 a modern potable water distribution system was built, which cost 250 million dollars<sup>5</sup>. In 1999 Statoil and Amnesty International with the cooperation of Venezuela's authorities came up with an educational PPP program, propagating the law of human rights among the Venezuelan judges. In China private commercial entities and its associations involve Chinese government, the local authorities and organizations to promote copyrights and respect intellectual property based on PPP. Using the instrument of PPP, the drying chamber of cardamom in Sankhuwasabha was restructured and an airport in Cochin in India was built<sup>6</sup>. In 2002 a demonopolization of Pakistani telecommunication system was initiated, enabling private companies investments in infrastructure<sup>7</sup>. In Japan PPP is applied to medical services, house building, IT sector and transport.

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<sup>2</sup> <http://www.centralparknyc.org/thenandnow/partnership>.

<sup>3</sup> *Public-private partnership for highway infrastructure development In Mexico*. Unidad de Autopistas de Cuota de la Susecretaria de infraestructura and Direccion de Desarrollo de Proyectos de Banobras. Mexico. Distrito Federal February 2003.

<sup>4</sup> S. Contrieau-Levine: *Private Sector Participation In Municipal Solid Waste Services In Developing Countries. Urban Management Programme*. The World Bank, International Bank for Reconstruction and Development. 1994.

<sup>5</sup> P. Gidran, I Blore, J. Lorentzem, P. Schuttenbelt: *Public-Private Partnership in Urban Infrastructure Services*. UMP Working Paper Series 4. World Bank. Nairobi 1995.

<sup>6</sup> *Public Private Partnership In Airport Development – Governance and Risk Management Implications from Cochin International Airport Ltd*. Indian Institute of Management Ahmedabad, Research and Publication Department in Ahmedabad 2001.

<sup>7</sup> M. Saleem: *Public Private Partnership In Telecom Infrastructure*. Source materials – Pakistan Telecommunication Authority.

Analyzing the European market of public-private partnership, it is easy to come to a conclusion, that with no doubt PPP is most extensively implemented in Great Britain. The value of the projects held only from the beginning of the nineties of last century is estimated at over 60 milliard £. Till the end of 2007 United Kingdom can proudly present over 790 signed projects, including the railway connection – Channel Tunnel in 1996 worth 4 milliard £ or initiated in 1998 a restructuring program of London's metro, which in the record-breaking year 2003, took up expenditures of 11 milliard £<sup>8</sup>.

In Germany, France, Italy and Spain PPP is functioning in the defence system, education and transport, motorways and tunnels are built. In Greece the fast municipal railway system was modernized in Thessaloniki. Accomplishment of Deliver-Build-Finance-Operate PPP motorway section Helsinki-Lahti was a huge success in Finland. In Netherlands railway transport was modernized – High Speed Line project. In Portugal airports are brought up to date and the road-building is being restructured, example Tagus Bridge. Rising importance of PPP is stated in Czech Republic, Bulgaria, Romania, Hungary and in Poland<sup>9</sup>.

### **Analysis of potential advantages and disadvantages of public-private partnership ventures**

In most cases implementing the idea of public-private partnership into economical practice implies the following values. Owe to the PPP form it is highly probable to obtain definitely lower total costs of project's implementation, than in traditional way using more expensive traditional outer sources of finance. Thanks to PPP it is practical to build an infrastructure of high quality in the shortest possible time, mainly because of the high quality of materials used at work and the modern work systems. Due to employment of *whole-life costing* method, the costs are optimized in a long term period. It is possible to significantly lower or even totally eliminate the public sector's expenses during the construction of the object, although it directly depends on the type of implicated model. PPP means more accessible, synchronized process of budgeting due to the arrangements and compensation of costs beard by the public sector at the exploitation phase, duration of the agreement and partial transfer of risks to the private sector. The probability of suspending or delaying the building process of investments, because of the lack of funds is reduced. The risks of unacquittance of the agreement concerning the venture by the Special Purpose Vehicle or subcontractor is also reduced, due to applying the proper promotion and sanction systems, especially as far as it concerns term-abidance and the quality of services. The possibility of implementing highly capital-consuming projects expanding and improving the infrastructure with limited possibilities of investments as a result of limited private sector's credit capacity is really getting – that is overcoming the lack of funds barriers. PPP is also connected with a very rich exploitation of public sector's potential, owe to minimizing funds suppressions, which are considered a great difficulty or even a barrier of an effective use of supplies. PPP also gives the opportunity to take up a controlled cooperation with the private sector during carrying out the venture, which specification makes the privatization difficult, because of strategic reasons for example<sup>10</sup>.

On the other hand because of concluding long term PPP agreements, which entail long term commitments to the Special Purpose Vehicle and the private sector, a threat of significant reduction of financial flexibility of the public sector may occur. PPP generally means more complicated, time-consuming and carrying a lot of difficulties process of

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<sup>8</sup> Public Private Partnership Forum. *Project database*. <http://www.pppforum.com>. February 2009.

<sup>9</sup> *Public Private Partnerships. UK Expertise for international markets*. PriceWaterhousCoopers. London 2003. s 16-17.

<sup>10</sup> P. Roseau Villancourt: *The Strengths and Weaknesses of Public-Private Policy Partnerships*. Public-Private Policy Partnerships. The MIT Press Cambridge Massachusetts. London 2002.

project's implementation, even taking into account the participation of many entities of both public and private sectors, sometimes of extremely different interests, requiring a great involvement from both sides. A threat of minimizing local authorities' influence on a certain branch and no stimulation of free-market mechanisms may appear, by reducing competitors after signing the agreement. There is no way to exclude the possibility of charges raising of rendered services by the entities under new conditions, as a result of beard realization costs. A deterioration of the negotiating position of the local government towards branch specialists is also to be expected<sup>11</sup>.

These significant disadvantages do not discourage many public institutions or economic private entities to take up international partnership. These kinds of cooperations definitely occur more often. After comprehensive analysis of present situation and the spectrum of advantages and disadvantages, which may appear during implementation process, all units participating in the project are able to discount the awareness of evaluated hypothetic PPP's attraction.

### **Smart Card Octopus integrated inter sector payment system in tourist traffic service in Hong Kong**

More often PPP formula has its application in financing the expansion of tourism. Probably the most interesting example of cooperation between private and public capital has been functioning in Hong Kong, since the 1<sup>st</sup> of July 1997 the Special Administrative Region of the People's Republic of China. Still at the time of being under the British influence as a colony, which at present is inhabited by 6 million 985 thousand of people<sup>12</sup>, transport firms Mass Transit Railway Corporation Limited, Kowloon-Canton Railway Corporation, Kowloon Motor Bus, Citybus and Yaumati Ferry in 1994 to implement a technology of smart cards into the payment system in the municipal transport, signed an agreement forming a company by the name Creative Star Limited (since January 2001 operating under the name Octopus Cards Limited) which took charge as an operator of the system<sup>13</sup>. Among cooperating PPP entities, public companies such as KCRC, companies with most public capital shares such as MTR and private firms can be distinguished. Into this venture AES ProData Ltd., a company of Energy Research Group was plunged. This leading company of IT sector, specializing in payment charging systems along with Sony, not less known company, came up with a project Octopus and in 1997 this system was implemented into general use.

In April 2000 Octopus Cards Limited gained Hong Kong Monetary Authority's authorization, thanks to that, it was able to perform a new role of a depositary, which expanded the payment charging system, which at first was functioning only in transport, to other areas of use. 7-Eleven Convenience Store, a chain of kiosks was the first institution outside the transport branch, which joined the venture in September 2000<sup>14</sup>.

In 2005 Octopus Holdings Limited was established and is owned by the major transport operators in Hong Kong. In order to create more comfortable environment for business, the holding company was incorporated after a restructuring. The main aim was to launch separate Octopus subsidiaries in non-payment area of the market. Besides Octopus Cards Limited, there are currently five wholly-owned subsidiaries operating in the group. Octopus Rewards Limited is responsible for beneficial rewards programme that is based on close collaboration with different merchants, which gives the users

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<sup>11</sup> Adopted from: *Partnerstwo publiczno-prywatne jako metoda rozwoju infrastruktury w Polsce*. Raport Amerykańskiej Izby handlowej w Polsce. Warszawa, październik 2002. s. 23.

<sup>12</sup> Source materials of Cenzus and Statistics Department. The Government of Hong Kong Special Administrative Region. <http://www.censtatd.gov.hk>. The state at 15.02.2009.

<sup>13</sup> *Hong Kong Smart Card System*. <http://www.worldbank.org>.

<sup>14</sup> <http://www.octopuscards.com/eng/general/about/history.jsp>.

chance to earn points and redeem them across the system. Octopus International Projects Limited provides international automatic fare collection consultancy services and promotes intelligent solutions convenience overseas.

At present there are over 2000 participating institutions in the venture, which accept the Octopus cards. In many hotels guests are given Octopus smart cards playing the role of hotel room access cards. This is a great marketing policy instrument. The hotel's advertisement is placed at the reverse of the card, a symbolic amount of money is available to spend, which allows tourists to check out the system. If the hotel does not practice such form of promotion, still tourists have no problem getting Octopus card and charge it adjusting to their needs, at special points, through internet, via phone, transfer or at cash dispensers belonging to 19 banks. The tourist is able to use a wide range of services offered by the system's participants, paying for everything using only one Octopus card: at restaurants, bars, cafés, discotheques, night clubs, entertainment centers, Wellness & SPA, sports objects, rent-a-car services, parking places, boutiques, supermarkets, kiosks, bazaars, post offices, vending machines, photo copy service and photo points, tourist and recreation infrastructure objects. This is a great facility for the visiting traffic in consuming tourist and recreation services. Recently tourists can move throughout Hong Kong upon one ticket-card, using all transport companies' services, without the necessity to learn the previous different and complicated tariff systems. What is more, tourists do not have to know Hong Kong coins or banknotes nor how to distinguish false from the real ones. Unfortunately, tourists are one of the basic groups, which is mostly threatened by cheaters. Used by local inhabitants, the system is considered particularly safe, what is more, a large number of cards is used as keys to access apartments and flats.

The investment was realized due to the credit guaranteed by Hong Kong Special Administrative Region Government of People's Republic of China. At the beginning the enterprise was functioning based on *non profit* idea, yet by the decision of the participating sides in 2001, the project developed its commercial character. Deposit money and commissions received from each transaction are the sources of income. The received commission is 0,95% of the transaction's value and the single disposables are fixed at HK\$30. In 2007 Octopus Cards Limited yold profits at HK\$39 million<sup>15</sup>.

This pioneer enterprise recently guarantees Octopus Cards Limited the leading position in integrated payment systems. There are over 50 thousand card readers and 17 million cards participating in this network. Everyday 10 million transactions are processed, valued at over HK\$85 million<sup>16</sup>. Over 25% of the transactions are made out side transport and Octopus system has the widest range of available services. 95% of the population of Hong Kong aged 16 to 65 use Octopus cards. Among users of cards issued into the market for the shortest period of expiry date - less than three months, tourists are 80%. What is interesting, leaving Hong Kong they do not return their cards, regardless of the deposit, which they may receive back, but they take it as wonderful souvenirs in remembrance of quality of service they enjoyed. PPP project received recognition for its accomplishments from its users, which number increases from year to year, as well as in the international field. Every year the solution wins prestigious awards in terms of innovations. In a year after the implementation a magazine called Far Eastern Economic Review awarded Octopus Cards Limited with a prize "Asian Innovation Award". A year later UITP - International Association of Public Transport - regarded as the most important international organization for public transport authorities and operators, policy decision-makers, scientific institutes and the public transport supply and service industry awarded Octopus Cards Limited the first prize for innovations in public

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<sup>15</sup> <http://octopuscards.com/eng/whatis/cardtype.jsp>.

<sup>16</sup> <http://www.octopuscards.com/corporate/why/statistics/en/index.jsp>.

transport. The company takes care of permanent expansion and development of its product, constantly rising the attraction of services. Lately the company thinking about the youngest passengers' segment has launched electronic watches with implemented integrated circuit, operating the same way as Octopus cards, so that children would not have to carry cards. For the elder users, cellular phone covers are proposed also with integrated circuit of smart card Octopus.

At present stadium of civilization's development Smart Card Octopus can be a successful example of an aspiration to reach the perfection in quality care of services provided to visiting tourist traffic. The most valuable feature most often emphasized by incoming tourists is the ease of getting around Hong Kong sights and shops without the obligation of buying individual tickets for different transport systems or separate means of transport. Tourists also give weight to convenience of "touch and go" payment during their stay in foreign country without necessity to recognize local coins or banknotes or even carry currency. And least but not last, there is common appreciation of the widespread acceptance at retail outlets including shops, boutiques, supermarkets, luxury restaurants, fast food chains, cake, bakery and convenience stores, personal care stores, vending machines, photo booths, pay phones, cinemas, sights, leisure facilities and many more.

Smart card systems in tourism are becoming more and more popular and have stable future prospects. In 2009 the integrated payment system based on Octopus technology is going to be implemented in Dubai.

### **The summary**

Nowadays in a large number of western countries public-private partnership is a well known and a very appreciated method of carrying out investment projects. Thanks to this practice, more and more other countries seem to implement PPP in national economies. It is estimated that almost 1200 contracts of public private partnership were realized during the period of 1994 – 2007. The estimated amount of these ventures has reached almost 290 million euros<sup>17</sup>.

In developing economies, such as Poland, PPP is very likely to gradually gain popularity in many sectors, especially these permanently facing shortage of funds. Insufficient funds along with other structural problems of emerging market economies often make PPP the only solution to finance investment projects. The analysis of potential advantages and disadvantages of public-private partnership reveals great superiority of lucrative effects.

One of the most important issues is to assure optimal quality of service. This requirement does matter particularly in wide range of aspects in tourism and recreation. Implementation of integrated payment system based on contactless electronic card is always a complicated enterprise demanding great capital expenditure. The problem is more evident when it comes to multi sector cooperation including many partners representing different forms of ownership.

A very interesting example of public-private partnership in improving quality of service, which can be treated as a good lesson for new projects, has been successfully functioning since 1997 in Hong Kong. Smart Card Octopus - integrated inter sector payment system gives visiting tourists the great opportunity to move through out the all region, using the whole system of municipal transport basing on one single ticket. Apart from transport, incoming visitors use Smart Card Octopus system for making payment transactions in more than 2000 places, which provide many different services, especially in the field of tourism and recreation.

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<sup>17</sup> <http://www.centrum-ppp.pl>

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