

# Executive Summary

## Introduction

Amid the global COVID-19 pandemic, the logistics industry has demonstrated its importance to Hong Kong's society and economy. It is instrumental not only in maintaining the flow of essential goods such as food and household supplies, but also in supporting the paradigm shift in retailing, which is the process of migrating purchasing activities from offline to online. This is a trend that has emerged in recent decades, with the growth of e-commerce serving as the catalyst.

Globalisation of supply chains and changing consumer behaviours have made logistics an increasingly crucial link throughout the value chains. On the one hand, product manufacturing is taking collective efforts across different countries to make product parts and perform final assembly, with logistics smoothing the process. On the other hand, consumers are increasingly making their purchases online instead of going out to brick-and-mortar stores, with logistics performing last-mile deliveries to people's doorsteps. All these changes have prompted the logistics industry worldwide to continuously evolve and grow its operations and services.

With intensifying geopolitical tensions worldwide, however, accompanying deglobalisation moves could hurt international trade and pose additional challenges to the logistics industry. In this context, a reconfiguration of the global supply chain is inevitable. As the rest of the world is moving swiftly to adjust to the shifts in global trading practices, Hong Kong, a premier trading and logistics hub, must also take forward-looking measures to keep pace with its peers and competitors.

## Challenges faced by the logistics industry in Hong Kong

Although Hong Kong as a logistics hub benefitted from many geographical and inherent advantages, including strategic location, excellent connectivity, efficient customs operations and its free port status, the logistics industry's edge is diminishing. This is due to rising labour costs, inadequate government support and especially a continual shortage of land supply. These constraints are a direct consequence of the Government's lack of a strategic economic and industrial blueprint.

Take the maritime and port industry for example: Hong Kong Port (HKP) used to be the busiest port in the world, but 2019 saw its global ranking drop to eighth place. A comparative analysis shows that HKP has the smallest yard area as a proportion of throughput among the world's top ten ports. This is particularly problematic considering HKP's expanded role as a transshipment hub, which requires a large container yard area to park transshipment containers that wait for the next vessel bound for their final destination. To make matters worse, our proprietary analysis indicates that over 40% of the land designated for port back-up uses near Kwai Tsing Container Terminals (KTCTs) is at present under-utilised.

By contrast, Hong Kong's airfreight sector is performing strongly, and Hong Kong International Airport (HKIA) is still ranked as the world's busiest cargo airport. But HKIA is also facing potential space constraints, with one of the lowest ratios of airport logistics space to air cargo tonnage handled among the world's top ten airports.

The above examples are just a tip of the iceberg threatening the logistics industry. In fact, the supply of logistics space is far behind the industry's demand. While the trading and logistics sector's GDP contribution grew by 51% from 2009 to 2018, built-up industrial land recorded only a meagre increase of 8%. In particular, a supply vacuum of new warehouse spaces in the past decade has pushed down vacancy rates and driven up rents. Meanwhile, the existing flattened factories in the city, designed during the industrial era, are simply not suitable for the market's needs, as logistics operators look for modern facilities with a large floor plate, high ceilings and direct ramp access.

The under-supply of industrial space has pushed logistics operators to operate on sites without proper planning and infrastructure in the New Territories, resulting in the emergence of brownfield. Currently, of the 1,414 hectares of active brownfields, 651 hectares, or 46%, are occupied by logistics-related industries. Unfortunately, operations on brownfields are far from optimal, with unplanned development polluting the environment and upsetting nearby residents. This outcome is a negative externality that is currently borne by the community.

To support sustainable growth of the logistics sector, we believe that the way forward is for the Government to commit to a timely and adequate provision of land and facilities. Equally important is to implement policies under an effective governance structure in support of our strategic industries as a whole.

## Policy recommendations

In this regard, this report presents a set of five policy recommendations with the aims of driving the long-term sustainable growth of our logistics industry and paving the way for our future economic development. These recommendations address the current issues from both the ‘hardware’ and ‘software’ perspectives.

## ‘Hardware’

### Recommendation 1: Develop dedicated logistics nodes

In anticipation of the future demand of the trading and logistics industries and other strategic sectors, the Government should develop dedicated logistics nodes in the New Territories. With well-planned development, these logistics nodes could eliminate the negative externality generated by existing unorganised brownfield operations. As a relocation option for current brownfield operators, the logistics nodes will also facilitate the reapportioning of brownfield sites for other development such as housing.

Four logistics nodes are proposed at strategic locations identified in the New Territories, namely the Hong Kong Boundary Crossing Facilities Island, Lung Kwu Tan and Tuen Mun West, Northwest New Territories and New Territories North. Each of these locations is designed with respective roles and functions that are to be complementary with one another. These logistics nodes can provide up to 930 hectares of land and accommodate up to 125,000 jobs, thereby providing the necessary space for the logistics industry and other strategic industries that may emerge in the future.

### Recommendation 2: Reform site allocation mechanism

To provide a level playing field for companies of all sizes and to underpin the healthy development of the industry, the Government needs to rethink its site allocation mechanism within the aforementioned logistics nodes, instead of succumbing to the old path of open bidding to achieve the highest profit for the sites. The logistics nodes could be managed by a statutory body with a mission to drive the long-term development of the industry. This report touches on several operation models based on overseas experience, which could serve as a good reference for management of the logistics nodes.

### Recommendation 3: Relocate Kwai Tsing Container Terminals

In our previous report *From Large Scale Reclamation to an Ideal Home*, we proposed the relocation of the KTCTs to an outlying island. One possible relocation site is Cheung Chau South. Some have also proposed building a mega port outside Hong Kong waters to consolidate all major ports in the Greater Bay Area. By relocating the KTCTs, not only can it create an opportunity to upgrade our port infrastructure for modern transshipment business, but it can also release valuable land in the urban core area for residential and commercial development.

## ‘Software’

### **Recommendation 4: Conduct economic reviews and formulate industrial policies**

The absence of strategic economic reviews and industrial blueprints creates ambiguities in cross-department coordination within the Government on policy support for local industries. This report suggests that the Government should carry out regular economic review and devise policies to facilitate growth of our strategic industries, such as logistics. A clear economic strategy and industrial blueprint will provide straightforward guidance for Hong Kong's strategic land use planning, so that the land demand of the city's strategic industries can be fulfilled in a timely and organised manner.

### **Recommendation 5: Establish a statutory body for the development of strategic industries**

The Government should establish a statutory body dedicated to the development of strategic industries such as logistics. While the sector already has advisory bodies, they are mostly consultative in nature and lack the necessary resources and executive power to implement suggestions put forward by the industry. A standalone statutory body with authority to manage industrial properties and with its own independent financial resources will be much more flexible in spearheading the development of our strategic industries. The new statutory body does not need to start from scratch. This report recommends that the Government may consider upgrading or consolidating the Hong Kong Maritime and Port Board, Hong Kong Logistics Development Council, and Hong Kong Trade Development Council into a strategic economic statutory body to look after the future development of the logistics and other strategic industries.

## **Conclusion**

The coronavirus pandemic and growing geopolitical tensions have transformed the overall picture, demanding new responses from our logistics industry. In the face of the pandemic, the industry has shown strong resilience and adapted itself to offer reliable contingency services arising from new e-commerce demands and the need for Personal Protection Equipment (PPE) and pharmaceuticals. In preparation for the potential reshuffling of the global supply chain, we believe that now is the time for the Government to face up to its responsibilities and act in a timely manner in the interests of society and industry. With an advanced, forward-looking industrial blueprint and policy measures to guide and support the long-term growth of our strategic industries, Hong Kong will remain a competitive, dynamic yet sustainable economy, one that the world can count on as a dependable partner in all areas of trade and logistics.