



The Hong Kong
Shippers'
Council
香港付貨人委員會



Willy Lin
Chairman

“One plus Four” : An all-round viable model

EXECUTIVE COMMITTEE 2020

CHAIRMAN

Mr. Willy Lin

VICE CHAIRMAN

The Hon. Jeffrey Lam

MEMBERS

Dr. Roy Chung

Mr. Marvin Hsu

Mr. H. Y. Hung

Mr. Mickey Ko

Mr. Gary Lau

Dr. Patrick Lau

Mr. V K Parekh

Mr. Eric Sun

Mr. Stanley Szeto

Mr. Sunny Tan

Mr. Dickson Wong

Mr. Wong Wai Wing

Mr. Brian Wu

Mr. Yeung Chun Fan

EXECUTIVE DIRECTOR

Mr. Sunny Ho

I am delighted the Asian Logistics & Maritime Conference (ALMC) 2019, Hong Kong's signature event for the shipping and logistics industry, was able to be held at the Hong Kong Convention and Exhibition Centre last month, as planned. Despite this being a very challenging time for Hong Kong, it was encouraging to see such high audience turnout and participation, including that of many overseas speakers and guests. I am confident that Hong Kong will soon regain its vitality and unity of focus as a world-leading city and business centre.

During the ALMC I was asked to present my views on the current manufacturing landscape, which I tend to describe as the “One plus Four” model. The reasoning behind my adoption of this term is as follows:

Firstly, I am concerned with the location of manufacturing bases. The “One”, in this case, is China, while the “Four” refers to diverse new manufacturing bases in Vietnam, Cambodia, Indonesia and Thailand, along with Myanmar, India, and even more remote ones, in Africa. Many Hong Kong manufacturers had the foresight to establish manufacturing facilities in South East Asia way back in the 1980s. After China's admission to

the World Trade Organisation in late 2001, manufacturing activity became concentrated along the coastal regions of Mainland China. Inevitably, costs surged, and this, coupled with the mainland government's policy of encouraging up-scale production and relocation from the coastal regions, led Hong Kong manufacturers to reconsider overseas production. While the Belt and Road initiative (BRI) provides further opportunities for investment in the Belt and Road regions, intensification of the U.S. – China trade conflict has made overseas production seem suddenly very attractive. We saw the momentum pick up from mid-2018, leading to the “One plus Four” manufacturing bases scenario.

The second meaning inferred by “One plus Four” relates to production and other functional activities, elements such as research and development, product design, innovation and technology, supply chain management, foreign exchange and other financial arrangements, marketing, legal matters, risk management, contract negotiation, and so on. In this scenario, the “One” refers to production. This could take place in China or anywhere production is performed. The “Four” refers to the other functional activities of production. Due to



manufacturing base expansion, e-commerce, smart production, the development of "Industry 4.0", and re-industrialisation, Hong Kong companies have shifted from mainly OEM production to production and supply chain management and control.

Although not widely advertised, Hong Kong companies hold prominent and leading positions in sectors ranging from underwear, moldings and toys to some of the electronics industries, and so forth. And unlike South Korean and Japanese companies, which have generally chosen to integrate their production and marketing chains, Hong Kong companies do not seek to produce and distribute "everything-in-house". Hong Kong companies are more inclined than their global competitors to establish strategic partnerships with overseas partners, especially the buyers, in aspects of research, production technology and methods, production base location, and supply chain establishment.

So, to clarify, the "One" here refers to production in China – overseas or outsourced – and the "Four" signifies the different key functional manufacturing activities that Hong Kong companies are conducting.

The third use of "One plus Four"

is the flow of raw materials, accessories, parts, and finished products. The "One" is still China. It is the main source of finished products shipped to established markets like the U.S. and Europe and, since the diversification of production bases, has become a major supplier of raw materials, parts and accessories to production bases in the ASEAN region. We are also beginning to see more finished products exported directly to the U.S. and Europe from these new ASEAN production bases. The "Four" in this scenario refers to the crisscross trading and logistics cargo flows between China and these economies. The BRI, and development of e-commerce, are only going to accelerate this trend, adding complexity and diversity to the cargo flow in the process.

China and its network of inter-related regional partners grows ever more prosperous as more finished products are traded and transported among them. This upward trend is well illustrated by considering the ranking of Hong Kong and its trading partners. Mainland China remains Hong Kong's number one trading partner. However the ASEAN economies have now overtaken Europe to become Hong Kong's second most important trading bloc.

Hong Kong companies have been ably assisted by the SAR Government to capture these trends. They, particularly the small and medium-sized ones, are able to make use of the BUD, SME Marketing, and Innovation and Technology Funds to develop their regional businesses. In all there are over 40 different funds provided by the SAR government to aid local companies. These funds can be easily and effectively claimed and utilised only as long as the funds' administrative authorities undertake to guarantee a user-friendly experience, and one free from red tape.

Trade is the very lifeblood of Hong Kong. And Hong Kong continues to enjoy many of the advantages of development trends I have outlined here. For long an entre-port and facilitator of trade between China and the outside world, its role has never changed and, indeed, could be argued to be growing in importance. A strategic location, open port status, well-defined legal system and abundant supply of talented professionals are all key to this successful formula. Furthermore, Hong Kong is the most important financial centre in Asia as well as a leading shipping and logistics hub. Hong Kong, with its ability to serve trading and supply chain activities, combined with commercial agility and vitality, will continue to excel!