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

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Chairman

The upsides of the pandemic

In mid-April, the International Monetary Fund (IMF) expectedly lowered its 2020 global economic forecast from +3.3 per cent to -3 per cent.

In the foreword of the report, Gita Gopinath, Economic Councillor of IMF stated that "The global economy will experience its worst recession since the Great Depression, surpassing that seen during the global financial crisis a decade ago."

While this statement is certainly discouraging to read, the IMF also made a conservative — if not realistic — growth forecast for 2021. With the help of policy support, we are poised to experience growth of 5.8 per cent next year.

It is clear to see that global trade has been stalling since late March, due to a series of national lockdowns taking place in major nations such as China, Britain, and the United States.

To put it more plainly, a third of the world's population is currently under lockdown, and it goes without saying that the effects of national lockdowns have caused many — and perhaps all — economies to suffer.

Supply chains are collapsing as cargo continues to pile-up at ports; importers are having to delay and cancel orders; and have also had to reject cargo and request substantial lengthening of credit periods.

Meanwhile, exporters have been troubled by disrupted logistics arrangements, as bookings of air cargo spaces change daily (and with little notice) and freight rates continue to fluctuate. Sea freighting services have also faced innumerable cancellations, resulting in blank sailings and a capacity crunch.

As for supply chains, certainty, reliability, and visibility have been reduced to unacceptable levels.

While volume of small parcels and e-business goods continues to surge, integrators and post services alike are unable to maintain even their basic regular services.

On top of this, shipments of personal protective equipment (PPE) have increased substantially and have been continually facing logistical obstacles due to the diversity of requirements and restrictions, many of which tend to be unclear.

Traders and service providers have also suffered severely and are facing liquidity issues in their day-to-day operations.

Contracted businesses are suffering from significantly strained cash reserves, especially SMEs. Risks of

default payment and bankruptcy are high and have enhanced demand for cash transactions, and consequently strained cash flow further. In response, banks and financial institutions are erring on the side of caution and tightening credit.

Coface, a world leading risk assessment institute, stated in a report that as many as 25 per cent of world's enterprises might go bankrupt because of the pandemic.

As for support on our side of the world, the Chief Executive announced the second batch of HK$137.5 billion of the Anti-epidemic Fund on 8 April. This is an additional amount on top of the HK$120 billion relief package in the 2021–21 budget announced on 26 February, as well as the HK$30 billion Anti-epidemic Fund approved by LegCo on 21 February.

The packages are designed to support businesses to stay afloat and retain jobs, and I must say that these relief measures are a sure cause for optimism, given that the IMF's forecast for Hong Kong currently stands at -4.8 per cent in GDP; unemployment has also surged by 4.5 per cent this year.

If we are to staunch the flow of our haemorrhaging economy, then we must do what we can to prevent any more business closures and job losses. Now more than ever, Hong Kong needs business and employment to pump life back into our already battered economy.

I have frequently been asked what changes would be brought to supply chains after the pandemic.

In my last Chairman's Message, I said that I envisioned an emergence of new and independent supply chains outside China, as supply chain managers will need to diversify and segregate supply risks.

However, the issue appears to be even more complex that I initially thought.

When Mainland China announced blockage at the end of January — with no date given for the resumption of production — supply chain managers hastily turned to Southeast Asia for alternative sourcing.

While this seemed like a good idea at the time, complications arose and led to a breakdown in major manufacturing activities once the pandemic hit these alternative manufacturing bases. This is because a substantial portion of raw materials, parts, and even those who manage production, come from China.

When China is able to resume production in an orderly and effective manner, the same cannot be said for these smaller and diverse economies.

I believe that supply managers will have no choice but to rethink their supply chains to ensure that they are not only far more cost-effective and efficient, but also have well-thought-out fail-safes in place.

I also concur with the view that block-chain technology will be used to a much greater scale in the future.

Block-chain, like video conferencing for meetings, could eliminate disruptions. It is a common interest of all shippers, service providers, and carriers to have a transparent, and reliable transport system.

Block-chain technology could bring along the much-needed predictability and certainty that our industry currently lacks. Moreover, block-chain is not a stand-alone technology, as it depends on the ecology for the industry.

While this pandemic has had some obvious downsides, it has also been a strong catalyst for technological innovation. Therefore, let us not get bogged down by what this pandemic has caused our industry to lose, but rather what it has allowed us to gain.

In that spirit, let us look forward to future, continue to innovate, and most importantly, keep our heads above water.