Hong Kong is

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

I was in New York, Los Angles and San Francisco in September as part of a Hong Kong Logistics Development Council delegation to the United States. The delegation was led by HKSAR Secretary for Transport and Housing, Ms Eva Cheng, and I was invited to make a presentation at the seminar attended by prominent members of the US logistics and trading industries in the Harvard Club in New York.

Willy Lin, Chairman

Ms Cheng's message to the US logistics community, "Hong Kong – Your Logistics Partner in Asia," summed up the current situation of the economies of the US and Hong Kong. The US is Hong Kong's second largest trading partner and the Port of Long Beach and the Port of Los Angeles together handle about 40% of containerised cargo from Hong Kong. Thereby making Los Angeles a very important conduit for US-Hong Kong trade and economic activities, said Ms Cheng.

In my presentation to the logistics community of New York, I chose to expound on Hong Kong's attributes as a Regional Distribution Centre and why it has always been the springboard to Mainland markets. I feel that, from time to time, it doesn't hurt to review and update our own knowledge of Hong Kong logistic services and how we can use them to expand our own trading and other commercial activities.

Ms Cheng summed up her rationale for Hong Kong as a strategic partner in one brief paragraph: "According to the United Nations, Hong Kong, a city of 7 million people and about one-tenth of LA county in size, ranked third in the world in terms of the largest Foreign Direct Investment received in 2010. Hong Kong, the gateway to China positioned at the heart of Asia, is clearly benefitting from the shift in economic interest to the East.

"The US is among the top five largest investors in Hong Kong. US companies have also topped our list of regional offices set up by foreign firms. Our economy is also doing well with a projected GDP growth in the range of 5-6% for 2011."

Hong Kong's transformation as a regional distribution centre did not happen overnight. The economy's structural transformation has seen the services sector overtake much of the economy and by 2009, the services sector constituted 92% of

the ideal RDC

the GDP. The import/export trades, wholesale, retail, restaurants and hotels, comprise about 26% of the GDP while transport, storage and communications make up 8%.

Much of this expansion and growth has been related to China, matching China's manufacturing and trade expansion. China of course has shown remarkable growth. According to People's Daily, by 2008 China's GDP had increased 14-fold since reform was instituted back in 1978. In 1990, the IMF ranked China's GDP 10th in the world, then 6th in 2000, 5th in 2005, and 4th in 2006. Today, it is second only to the United States. China's annual average GDP growth has been at 9.32%, and in the first quarter of this year, the GDP was consistent at 9.7%.

HKSAR Secretary for Transport and Housing, Ms Eva Cheng (centre), led a Hong Kong Logistics Development Council delegation on a visit to the US and spoke at a business luncheon in Los Angeles on September 8. The LOGSCOUNCIL delegation are seen here at the Port of Long Beach where they were received by senior management staff of the Long Beach Board of Harbor Commissioners including the President, Susan Anderson Wise (7th right); the Vice President, Thomas Fields (4th right); and other commissioners.

The connector between these two economies, Hong Kong's and the Mainland, is of course trade and logistics. So much so that China put in a section about Hong Kong acting as a regional distribution centre in its latest Five-Year Plan--the lynchpin of China's economic development. As Ms Cheng pointed out, "the 12th Five-Year Plan for the National Economic and Social Development of the People's Republic of China, promulgated in March 2011, contains, for the first time, a chapter dedicated to Hong Kong, and elaborates on the significant role Hong Kong plays in the development strategy of our country. The chapter strongly supports Hong Kong's development as a high-value goods inventory management and regional distribution centre. That means the Central People's Government of China recognises Hong Kong's importance and achievements as a regional logistics hub in its further economic development of the country, serving the mutual interest of both China and the Hong Kong SAR. Reliable security, quality assurance and strong intellectual property protection have made Hong Kong the ideal place for the distribution of high-value goods, and enabled our efficient operators to move up the value chain, providing customised services and supply chain solutions to clients from around the world."

Global brand names like H&M, Tiffany and Timberland manage their supply chain operations for the whole of Asia from Hong Kong. British retailer, Marks & Spencer, chose Hong Kong's Kerry Logistics as its partner in Greater China because of the extensive logistics network Kerry has established in the region.

But not only because of its proximity and strategic location to the Mainland, there is also another contributing factor to Hong Kong's improved access to the Mainland markets. The Closer Economic Partnership with the Mainland was inked before China's membership to WTO, and it

gave Hong Kong companies an early edge to the liberalisation of Mainland markets. The terms of CEPA were stipulated and signed on June 29, 2003, and cover three broad areas, the first being trade in goods which stipulates that all goods of Hong Kong origin imported into the Mainland enjoy tariff free treatment, upon applications by local manufacturers and upon the CEPA rules of origin being agreed and met. The agreement on trade in services allows Hong Kong service suppliers preferential entry into various Mainland service areas. Thirdly, the facilitation on trade and investment allows both sides to enhance co-operation in various areas to improve the overall business environment.

The entry of Hong Kong's services sector into the Mainland markets has contributed into its development as a Regional Distribution Centre. Hong Kong is now the main conduit for the wine trade into and out of the Mainland where economic rise has given way to consumerism and a taste for fine wine, among other things.

The Customs and Excise Department of Hong Kong and the General Administration of Customs of the Mainland signed in February 2010 the "Co-operation Arrangement on Customs Facilitation Measures for Wine Entering the Mainland through Hong Kong" (or the Customs Facilitation Agreement) to expedite Customs clearance of wine imported into the Mainland through Hong Kong. The Customs Facilitation Agreement applies to wine which is imported through designated ports into the Mainland; exported by Hong Kong Registered Wine Exporters; and imported by Mainland Registered Wine Importers.

Hong Kong deregulated the wine market in 2008, and in 2010, its wine imports had risen to HK$6,982 million and its exports to HK$1,336 million. No permit or license is required to import wine to Hong Kong. Under the amended Dutiable Commodities Ordinance, Hong Kong wine traders do not need to apply for licenses or permits to import, export, manufacture, store or move wine or liquor with an alcoholic strength of less than 30% by volume. Nor does the import of wine require a Certificate of Origin. No health certificates are required. There are no extensive labelling requirements except for drinks with alcoholic strength by volume of 1.2% but less than 10% which must show the durability period.

Because of this, Hong Kong has become a repository for wines that are meant for distribution in Asia and the Mainland. Wine storage is now a prime industry in Hong Kong, and there are some 15 top quality standard cellars, and ISO-level certification for storage facilities. The Hong Kong Quality Assurance Agency (HKQAA), following a detailed examination of official documentation and on-site audit, provides the Wine Storage Management Systems Certification Scheme as well as the Certification Scheme for Wine Retailers. The Wine Storage Management Systems certification program helps organizations guard against the deterioration of wine during storage. The scheme is applicable to all wine storage facilities and was developed based on ISO 9001 requirements and globally accepted practices.

Wine can therefore be stored in Hong Kong for months duty-free. DHL set up a wine distribution centre in 2010 for storage and distrbution. Hong Kong logistics company, U-Freight, has been HKQAA certified with The Wine Storage Management System - Provision of Commercial Wine Storage Services which UF Logistics implemented in its logistics warehouse in Hong Kong. UF provides commercial wine storage services within a 1,000-2,000 sqft area of the UF Logistics warehouse near the Hong Kong port.

The development of Hong Kong as a regional distrbution centre means more opportunities to capture the booming intra-Asia trade, even while structural problems plague the economies of our largest trading partners, the US and the EU. So we encourage our partners in the US to come and avail of the know-how and logistics infrastructure that Hong Kong has built over the years.