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HONG KONG INTERNATIONAL TRADE CENTRE

DEVELOPMENT STRATEGY

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Chapter I

Characteristics, Advantages and Opportunities of Hong Kong as an International Trade Center

Chapter I Characteristics, Advantages and Opportunities of Hong Kong as an International Trade Center

1.1 Development history and characteristics

(1) Establishment of an entrepot

Since its opening to foreign trade in 1840, Hong Kong has gradually developed into a free port by virtue of its superior geographical position, establishing its status as an international trade center. The historic changes Hong Kong has undergone have contributed to the current economic prosperity, so it deserves an in-depth study. We should also further explore new opportunities and continue to make new contributions to the development of Hong Kong and China.

The opening of Hong Kong to foreign trade made it an important free port, allowing merchant ships to enter and exit freely, attracting foreign merchants to transship goods in Hong Kong, and facilitating export from the United Kingdom to China. At that time, Hong Kong mainly relied on traditional entrepot trade with the Chinese mainland to drive its economic development.

However, with the establishment of the People's Republic of China in 1949 and the trade embargo imposed by the United States, Hong Kong's trade with the Chinese mainland stagnated. Hong Kong ushered in a major turning point, shifting towards manufacturing. In 1959, the proportion of Hong Kong's export value of products reached 69.6%, far exceeding that of its entrepot trade, making Hong Kong a center of light industrial products in Asia.

After the 1980s, as Hong Kong's manufacturing industry moved northward, its manufacturing output continued to decline and the proportion of local product exports fell sharply. From 1981 to 2021, the proportion of Hong Kong's manufacturing industry in GDP dropped from 22% to only 1%. Since the 1990s, however, Hong Kong's entrepot trade has grown rapidly, so Hong Kong's position as a foreign trade intermediary in entrepot trade has not been shaken by historical restrictions.

As the international relations between China and the United States eased after China launched reform and opening-up, Hong Kong became a transit point for Western goods entering China again. In the 20th century, Hong Kong was backed by the country's advanced manufacturing industry and gradually built by Guangdong Province into a transit point for Chinese goods destined for various regions worldwide.

Despite its small size and nearly nonexistent manufacturing industry, Hong Kong has emerged as the world's sixth largest commodity exporter. It has long served as a crucial intermediary in entrepot trade to earn service fees. Over the years, its total entrepot trade value has been about three times of its GDP. Notably, service fees from entrepot trade, which constitute only 6% of the total trade value, account for over 20% of GDP. At present, the primary source of trade logistics contributing to Hong Kong's GDP remains entrepot trade, consistently representing 15–20% of its GDP over an extended period.

(2) Rise of offshore trade

In addition to its substantial onshore trade, Hong Kong also manages a significant volume of offshore trade. Offshore trade can be divided into two categories—merchandising and merchanting:

(i) Merchandising—Establishments operating in Hong Kong purchase goods from overseas, or sell goods processed or produced overseas directly to overseas buyers without going through the formalities of Hong Kong Customs and Excise Department, so as to earn gross profit as trade income.

(ii) Merchanting—According to the requirements of buyers and sellers from overseas or the Chinese mainland, establishments operating in Hong Kong arrange purchases and sales of goods and provide relevant trade services, such as finding suitable sources of supply, conducting marketing, negotiating contract prices, collecting sufficient goods and their samples, shipping and inspecting goods, and arranging orders. The commodities traded also do not go through the formalities of Hong Kong Customs and Excise Department, and the trading companies act as agents to earn commissions or/and service fees as trade income.

Hong Kong's offshore trade involves not only the handling of foreign merchandise transactions, but also the unique situation in which Hong Kong companies sell goods manufactured in the Chinese mainland to the Chinese mainland. It is easy to find that in Hong Kong's trade, most of the items bought are not needed in Hong Kong, and almost all of the items sold are not produced in Hong Kong. The goods bought and sold often do not pass through Hong Kong's airports or seaports, yet they are aimed at the entire country and the world.

In fact, Hong Kong's trade function has begun to undergo substantial transformation, gradually transforming into a trade hub and operation center in the Asia-Pacific region. In the past, Chinese goods were processed by Hong Kong's light industry system. With the northward migration of Hong Kong's industry and the increasingly large economic size of China, Hong Kong is no longer a transit point, but

a carrier of offshore trade supported by ships from the Chinese mainland and foreign countries to Hong Kong, so that goods transshipped from Hong Kong can be sold to all parts of the world in the name of Hong Kong, making it an international trade center with contemporary significance.

(3) Re-examination of indicators utilized for assessing the development of Hong Kong as a trade center

The functions of Hong Kong's import and export trade have undergone changes in nature through multiple historical transformations. As a result, Hong Kong's import and export businesses will be increasingly valued by all sectors in the future development. Today, the rise of Hong Kong's offshore trade has led to growth in its trade-related services. Its offshore trade services account for one-third of its trade in services.

In the future, Hong Kong's trade transformation will be further accelerated. Hong Kong will gradually transform from an entrepot trade center to a trade operation and control center integrating various trade modes, and further transform into an import and export service center offering such services as RMB trade settlement, trade insurance and trade financing. The above services can be provided for international trading partners by virtue of the advantages of Hong Kong's common law. Hong Kong is now an import and export trade service center. It is no longer appropriate to assess the development of Hong Kong as an international trade center by the import and export volume. Instead, the number of people participating in providing various trade-related services and the GDP contribution should be used as new indicators.

Based on the above judgment, there are many potential opportunities in Hong Kong waiting for us to explore, including making good use of digital transformation and Hong Kong's status as an international shipping center and offshore RMB center.

With its diversified international service industry continuing to play a role in international trade, we should enable Hong Kong to undergo modern historic reforms once again, tell well Hong Kong's stories in the new historical period, and strive to create new brilliant achievements.

1.2 Hong Kong's traditional advantages in international trade

Since Hong Kong's opening to foreign trade, international trade has occupied a unique position in its economy. The Hong Kong Special Administrative Region (HKSAR) Government also regards trade as one of the four pillar industries. Hong Kong's import and export industry is well-developed, with many advantages. For example, it has an extensive international network, fully understands the needs of international buyers, and can provide non-trade support services such as financing and raw material procurement. With unimpeded access to information, it grasps the development trend and commodity sales of various industries, thus effectively providing tailored decision schemes for customers. Basically, Hong Kong's trade industry boasts the following advantages:

1.2.1 Advantages in the free port system

Hong Kong as a whole is a free port integrating foreign trade, finance, transportation and other functions. In general, Hong Kong's free port system upholds the six freedoms. The six freedoms, as important supports of the free port system in Hong Kong, have exemplary significance among global free zones. From 1995 to 2019, when the Heritage Foundation's *Index of Economic Freedom* in the United States counted "Hong Kong, China" separately, Hong Kong was rated as the world's freest

economy for 27 consecutive years. In the Fraser Institute's *Economic Freedom of the World: 2023 Annual Report*, Hong Kong remained among the top globally, ranking second[1].

(1) Freedom of trade

Hong Kong implements a negative list for import and export trade. Except for a few items related to health, safety and ecological protection (such as drugs, weapons, animals and plants), all kinds of goods can enter and exit Hong Kong freely. There are few quota and trade limits, with almost no active import and export quotas. The customs declaration formalities are very simple. Enterprises can import and export goods 24 hours a day, and summarize the list of goods for 14 days for customs declaration, which is efficient and convenient. Hong Kong's customs inspection rate is very low, lower than 1‰. The highly convenient customs clearance policy has created conditions for enterprises to integrate orders from many places at a port in Hong Kong and build a complex supply chain system.

(2) Freedom of investment

The registration procedures for investing and doing business in Hong Kong are simple and fast. If people apply to establish a company online, they will generally be issued with relevant certificates within one hour. Enterprises operate freely with little intervention from the government. Many industries conduct self-discipline management through non-governmental organizations such as associations. However,

[1]Press Release of the Government of the Hong Kong Special Administrative Region (2023). *Hong Kong continues to rank among top of world's freest economies.* Retrieved online on February 1, 2024. Website: https://www.info.gov.hk/gia/general/202309/19/P2023091900694.htm

the cost for enterprises to break laws is very high. Once violations are found, they will face huge fines. Hong Kong treats local and non-local investors equally, with little intervention and no subsidies, in a bid to foster a level playing field for all companies doing business in Hong Kong. Hong Kong only imposes conditional market access restrictions in a few industries such as telecommunications, broadcasting, transportation, energy, sales of liquor products, restaurants, medicine and finance, while other industries are completely open. At the same time, Hong Kong provides convenient services for enterprises to invest abroad and encourages them to "go global".

(3) Free flow of funds

In Hong Kong, both local and overseas funds can flow freely. Hong Kong adopts the Linked Exchange Rate System with US$, and its capital and financial accounts are highly open. Residents and non-residents are allowed to open domestic currency and foreign currency accounts at home and abroad, and the balance of accounts can be freely converted and transferred. Enterprises can open multi-currency accounts in Hong Kong banks and use any currency for trade settlement. There are no restrictions on the balance of payments, deposits, prepaid funds or financing for import and export. Hong Kong's capital market is fully open. There are no restrictions on the participation of foreign companies in local securities trading, and international investors can freely trade debt instruments issued in Hong Kong.

(4) Freedom of international shipping

Hong Kong's shipping industry has developed in a highly open and free market system. The government hardly intervenes in the industry, and it sets up no customs, inspection and quarantine and frontier defense departments to carry out additional supervision on ships and crew members. Vessels are not required to clear customs when

entering or leaving a port by sea, and loading, unloading, transshipment and storage of incoming, outgoing or transshipped goods in the port are not subject to customs restrictions.

(5) Freedom of entry, exit and residence

Hong Kong implements a relaxed and open entry-exit policy. Nationals of about 170 countries and regions are exempt from tourist visas for stays of 7–180 days in Hong Kong. For global talented individuals from all sectors of society who plan to work in Hong Kong, their employers only need to apply for work visas on their behalf to the HKSAR Government, which is very convenient. Hong Kong's immigration policy is designed to attract professionals and investors to work in the region. Foreign nationals who relocate to Hong Kong with their spouses or children for employment purposes can benefit from favorable conditions.

(6) Freedom of information flow

Prosperous trade results in a substantial demand for information exchange. After the First Opium War, with Hong Kong's opening to foreign trade, a number of English newspapers and magazines were founded in the region. From then to the Second Opium War, China's newspapers and magazines once flourished in Hong Kong, both in terms of quantity and commercialization, making it a center of newspaper business. Hong Kong thus became the birthplace of modern journalism in China. Since Hong Kong's return to China, the circulation of newspapers in Hong Kong has "risen steadily" despite the impact of online media. Entering the new era, Hong Kong has built first-class communications infrastructure with telecommunications cables connecting nine regions and crossing the Pacific Ocean, making it the preferred choice for multinational corporations to set up information centers. In Hong Kong, information flows freely as

regulators do not censor any content, and privacy protection is guaranteed by laws. For this reason, Hong Kong has become an international innovation and application center of big data, cloud computing, artificial intelligence and blockchain in recent years.

1.2.2 Advantages in international exchanges and professional services

(1) Close international ties and full understanding of international buyers' needs

As of now, Hong Kong Trade Development Council (HKTDC) and Invest Hong Kong have set up offices in 65 cities worldwide, extending services to 128 countries. The HKSAR Government also has 16 offices/liaison offices in the Chinese mainland and 14 economic and trade offices overseas.

The locals are proficient in English and other foreign languages. Most of them can communicate in two or three languages. English, Cantonese and Mandarin are widely used in the local business community. Most merchants can speak fluent English, which is conducive to attracting non-local talent and communicating with the international business community. Hong Kong maintains a smooth flow of information. Importers and exporters are fully aware of the best combination of various products at different times and production locations, and can keep up with the development trends, commodity directions, sales and other information of various industries.

(2) Provision of high-quality professional services other than trade

Hong Kong owns relatively perfect service systems, involving brand management, laws, accounting and auditing, financing, intellectual property, etc. They provide

guarantees for dispute resolution and patent and trademark protection during product transactions. The focus of modern trade competition has gradually shifted from commodities to technologies, such as financing and procurement of raw materials. Hong Kong's advantages in this regard are becoming increasingly obvious.

1.3 New opportunities brought by RCEP and BRI

1.3.1 Joining hands with Southeast Asia: Significance of Hong Kong's accession to RCEP for its trade development

The Regional Comprehensive Economic Partnership Agreement (RCEP), a comprehensive and high-quality agreement, was officially signed at the end of 2020. Its members include China, Japan, South Korea, Australia, New Zealand and the 10 Association of Southeast Asian Nations (ASEAN) countries, with their total population, economic size and total trade value accounting for about 30% of the global total. As an international financial, trade and shipping center, Hong Kong is an open export-oriented economy that is actively seeking to join the RCEP.

The RCEP includes provisions on rules of origin, trade facilitation and simplification of customs procedures, and creates a favorable environment for e-commerce and fintech. It will gradually eliminate tariffs on more than 90% of merchandise in the region, and fully open 65% of the service industry. The RCEP is open to all economies, with a low threshold and an easy transition period for each member to fulfill its commitments according to its own conditions. It is worth mentioning in particular that the RCEP has enabled more developing countries to join the global trading system and given opportunities to more micro and small enterprises to grow.

Against the backdrop of ever-closer regional economic and trade relations, the Chinese mainland is actively pursuing new changes in both the industrial and value chains. Under the RCEP framework, intermediate goods in the Asia-Pacific production network can be traded on a zero-tariff basis, which will greatly increase the trade of intermediate goods between China and ASEAN. It is foreseeable that in the future, China will transfer more labor-intensive production processes such as assembly and processing to ASEAN countries, and export parts and semi-finished products to them. Products will be exported to other parts of the world after the final production process is completed in ASEAN countries. China will shift its focus to midstream and upstream production links requiring relatively high technology and capital investment, including R&D, design, management, and production of key components and parts. In this process, Hong Kong faces multiple opportunities.

Hong Kong maintains close trade ties with RCEP members. In the map of RCEP members, Hong Kong is located at a hub connecting the more developed regions of Japan, South Korea and the Chinese mainland in the north and the emerging market of Southeast Asia in the south. Hong Kong also maintains frequent trade with RCEP members. The trade value between the two sides accounts for about 70% of Hong Kong's total. Hong Kong has signed high-quality free trade agreements with 13 RCEP members (including the Chinese mainland, ASEAN, Australia and New Zealand), making it eligible to join the RCEP.

Joining the RCEP will be an important opportunity to promote Hong Kong's economic development and industrial structural transformation. The current economic structure of Hong Kong has solidified over the years without new economic growth drivers, and some traditional advantages are also fading away day by day. It is

imperative to seek breakthroughs that can transform challenges into opportunities, in a bid to explore new growth space and inject vitality into the economy. There is no doubt that the RCEP will bring more trade and investment opportunities to Hong Kong, and the modern service industry represented by finance in Hong Kong can enjoy larger space under the RCEP. By joining RCEP, Hong Kong can create opportunities to enhance its economic and social development and optimize its industrial structure.

It is suggested that Hong Kong's business community should work closely with the HKSAR Government, actively coordinate with other RCEP members, and accelerate negotiations to facilitate Hong Kong's accession to the RCEP. The HKSAR Government has been seeking to join the RCEP, but it still needs lengthy negotiations. According to Article 6 of the *Guiding Principles and Objectives for Negotiating the Regional Comprehensive Economic Partnership*, the RCEP agreement will also have an open accession clause to enable the participation of any ASEAN FTA partner that did not participate in the RCEP negotiations and any other external economic partners, subject to terms and conditions that would be agreed with all other participating countries. According to this provision, Hong Kong and ASEAN have signed a free trade agreement (FTA), making Hong Kong an ASEAN FTA partner. If Hong Kong continues to participate in and complete the negotiations for new RCEP membership in the future, new impetus will be given to the economic and trade development of Hong Kong and the whole region.

1.3.2 New situation in the Middle East: BRI opens a new chapter for Hong Kong's offshore trade

(1) The growth of trade between the Chinese mainland and BRI countries creates opportunities for Hong Kong's offshore trade development

China's exports to Belt and Road Initiative (BRI) countries will maintain relatively high growth in the next few years due to various favorable factors, including the overall recovery of the overseas inventory cycle, the gradual conclusion of interest rate hikes in Europe and North America, the advancement of supply chain adjustments in Eurasian countries after the COVID-19 pandemic, and the opening of freight routes such as the China Railway Express and the New International Land-Sea Trade Corridor.

The steady recovery of China's consumption and the improvement of the investment structure will promote steady growth of China's imports from BRI countries. In particular, cooperation with South Korea, Vietnam, Malaysia and other countries in fintech fields such as mobile payment will further enhance trade facilitation. It is estimated that the growth rate of bilateral trade between China and other manufacturing countries will reach about 7.5% in the next few years[2].

The Chinese mainland is the primary service recipient of Hong Kong's trade industry. Participating in BRI cooperation is an important opportunity for Hong Kong to transform its trade and shipping. Hong Kong has long been an international trade and shipping center. However, with the opening-up of the Chinese mainland and the

[2]ICBC Asia Research (2023). *Prospects for trade and industrial synergy between China and markets along the Belt and Road.* Retrieved online on March 1, 2024. Website: https://www.hangyan.co/reports/3268317626555696769

emergence of competitive ports, Hong Kong's port shipping is facing a bottleneck in transformation. It is necessary for Hong Kong to strategically enhance its status as a trade hub, strengthen value-added shipping services and consolidate the century-old role of an international trade and shipping center. As a "middleman" for business cooperation between Chinese and foreign enterprises, Hong Kong's participation in BRI cooperation will provide it with more convenient trade channels and markets, giving it greater room for growth. At the same time, it will also gain more business opportunities in offshore trade activities such as high-end trade services and logistics transportation.

Participating in BRI cooperation will give full play to Hong Kong's important role in integrating cross-regional supply chains and industrial chains. With the growth in trade between the Chinese mainland and BRI countries, industrial chain restructuring and capacity transfer will also accelerate. In this process, Hong Kong's experience in coordination and management will help drive the restructuring of supply chains. In addition, as a major international financial center in the region, Hong Kong's modern service industry represented by finance can provide professional services and play its role of a "super contact" for BRI countries.

(2) The UAE, as a hub in the Middle East, enjoys broad cooperation space with Hong Kong

China is one of the largest sources of imports for the Middle East and the largest trading partner of Middle Eastern countries such as the United Arab Emirates (UAE) and Saudi Arabia. The Middle East is located in a key position connecting Asia and Europe, and it accounts for 60% of the world's total oil reserves. That is why it has long been a focus of attention for global economic and trade exchanges. It boasts opportunities in such fields as e-commerce, logistics and fintech.

The UAE is one of the most important economies in the Middle East participating in BRI cooperation. The most famous cities in the country include Dubai and Abu Dhabi. This research group went to the UAE for field investigations at the end of 2023.

The UAE has made great efforts to strengthen bilateral trade relations with other countries in the world. In the mid-1980s, it established Jebel Ali Free Zone, the first and largest free trade zone (with an area of about 100 square kilometers) in the Gulf region at that time. The zone has fully implemented the zero-tariff entrepot trade policy. The UAE has established bridges of trade with countries and regions such as India, China, Africa, Pakistan, North America and Latin America.

The government and industry of the UAE, especially Dubai, are very good at marketing to enhance the city's popularity. By holding Dubai World Cup and Dubai Shopping Festival and constructing seven-star hotels and the world's highest building, Dubai has taken the lead in transforming itself into a capital of business, tourism and finance.

While relying on tourism to enhance its popularity, the UAE has actively planned and promoted the construction of a transshipment gateway hub in the Middle East, combined airports with seaports, and built a sea-air multimodal trade transshipment port in cooperation with the free trade zone. Taking Dubai as an example, in 2022, its container throughput ranked 11th in the world, while its international passenger throughput of airports and cargo volume ranked 1st and 18th respectively. In order to foster new economic growth drivers, Dubai has also boldly implemented institutional innovation and built Dubai International Financial Centre (DIFC) with an independent legal system. It has achieved "one city with two systems" and implemented a common law system in the region, providing guarantee for the rapid development of the financial

industry. In the first half of 2023, financial and insurance activities contributed nearly 12% to Dubai's GDP.

Tourism, shipping and entrepot trade, and financial services have become the pillar industries of Dubai. The city has successively built the largest entrepot trade center, shipping center, international aviation hub and world-renowned tourist destination in the Middle East. Abu Dhabi has learned from Dubai's experience in various fields and is mending its pace in catching up in recent years.

With the improvement of network infrastructure as well as 5G and logistics warehousing systems in the UAE, a foundation has been laid for the e-commerce industry. The UAE is also striving for digital transformation of economy and it has introduced policies that encourage e-commerce models such as digital payment.

Hong Kong can seize the opportunity. First, the UAE can become an important partner for Hong Kong to build and promote its own cultural brands. Second, Hong Kong's import and export enterprises can fully consider looking for new opportunities and markets (especially the Middle East and India) and improving their own supply chain systems by relying on the huge port logistics network, inland logistics and industrial park matrix built by the UAE in its territory and around the world. Third, Hong Kong's trade logistics industry can use the existing local infrastructure to speed up the layout of overseas warehouses and combine them with cross-border e-commerce platforms to realize the digital upgrading of the supply chain.

Chapter II

Challenges Facing Hong Kong's Trade Industry

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The current challenges facing Hong Kong's trade industry are manifold, including the economic slowdown and even recession in overseas markets; the positive impact of the economic recovery in the Chinese mainland is less than expected, with a more immediate and pronounced impact in the short term. Besides, the impact of geopolitics, the trade-off between competitors' advantages and the ability to gain a head start in new changes and trends all signify a structural transformation in the medium to long term and deserve more in-depth and detailed analysis. In general, Hong Kong's advantages in traditional trading sectors are diminishing due to a combination of factors, some of which are beyond its control. Therefore, in order to consolidate and enhance its position as a trade center, it is necessary to make targeted policy adjustments in some new promising areas, such as trade digitization, cross-border e-commerce and offshore trade, so as to encourage the development of related industries.

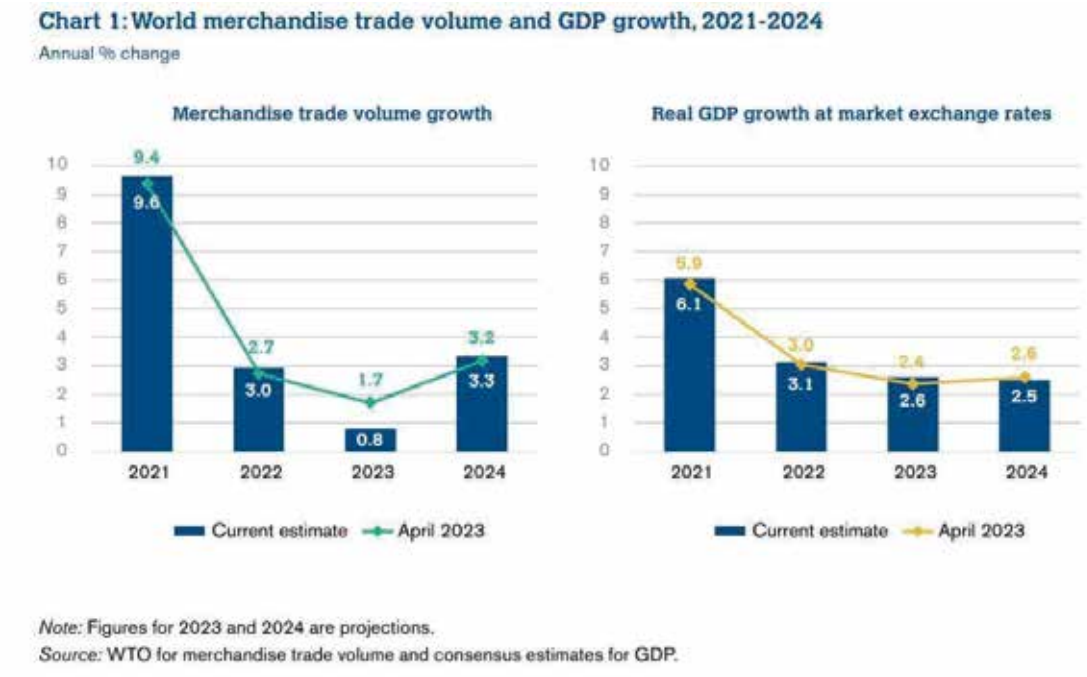
2.1 Economic slowdown in overseas markets

In the short term, the biggest challenge facing Hong Kong's trade industry is weak global demand. In its report *Global Trade Update* released on December 11, 2023, the United Nations Conference on Trade and Development (UNCTAD) predicted that global GDP growth would slow down in 2023, dropping from 3.1% in 2022 to 2.2% (or 2.6% according to experts of the World Trade Organization (WTO)). The trend of trade is generally consistent with that of GDP. The global trade value in 2023 would be about US$30.7 trillion, lower than that in 2022 (US$32.2 trillion). Trade in goods alone fell by nearly US$2 trillion, equivalent to an 8% decline.[3] In fact, global trade has been

[3]VOV (2023). *2023: A year of decline in global trade.* Retrieved online on February 20,

in a sustained downturn since the fourth quarter of 2022. In October 2023, WTO economists lowered the projected growth in global merchandise trade of the year to 0.8%. The WTO also expected that global merchandise trade would grow by 3.3% in 2024, largely unchanged from previous estimates. [45]

Chart 1 World merchandise trade volume and GDP growth, 2021–2024



Source: WTO

2024. Website: https://vovworld.vn/zh-CN/%E6%97%B6%E4%BA%8B%E8%AF%84%E8%AE%BA/2023%E5%B9%B4%E5%85%A8%E7%90%83%E8%B4%B8%E6%98%93%E4%B8%8B%E6%BB%91%E7%9A%84%E4%B8%80%E5%B9%B4-1258053.vov.

[4]United Nations (2023). *The World Trade Organization lowered the 2023 trade growth fo recast amid global manufacturing slowdowns.* Retrieved online on February 20, 2024. Websit e: https://news.un.org/zh/story/2023/10/1122677.

[5]WTO (2023). *Global Trade Outlook and Statistics. Retrieved online on February 20, 20 24.* Website: https://www.wto.org/english/res_e/booksp_e/gtos_updt_oct23_e.pdf.

Although the situation in 2024 is expected to be slightly better than that in 2023, experts are rather pessimistic about the situation. WTO experts said at a meeting on February 26, 2024 that international trade, a key engine of global prosperity after the fall of the Berlin Wall, had virtually come to a standstill and was certain to remain sluggish in the coming years. The growth rate in trade in goods and services was estimated to be 0.2% in 2023, the lowest in the past five decades apart from the periods of global recession. Had it not been for the increase in trade in services, the growth rate would have declined. Trade in goods shrank by about 2%, the highest in this century except the periods of global recession. Trade growth is set to improve this year but may only reach half of the pre-pandemic decade average. In fact, by the end of 2024, global trade will experience five years with the slowest growth since the 1990s. [6]

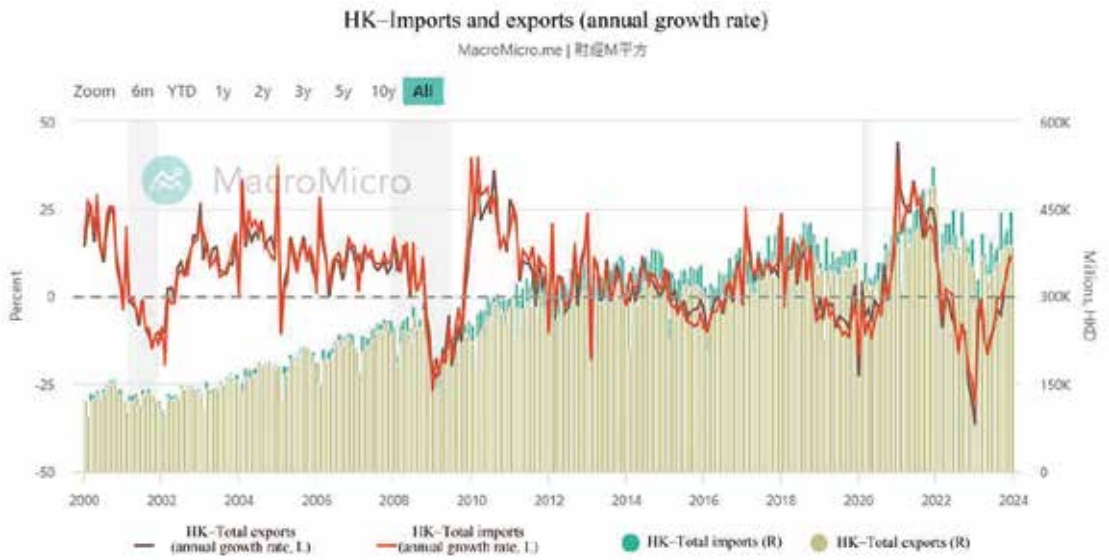
Hong Kong, as an economy highly dependent on foreign trade, is naturally in an unoptimistic situation. Although Hong Kong's total import and export value and growth rate in 2023 were higher than those in 2022 (see Chart 2)[7], HKTDC Export Index has not been "positive" over the past few years (see Chart 3), indicating that factors such as weak global demand and continued geopolitical tensions have affected export prospects. The Offshore Trade Index, which tracks confidence in offshore trade (trade with goods not shipped through Hong Kong but handled by a Hong Kong company), also fell 12.9 points to 33.6 in the third quarter of 2023 (see Chart 4), reflecting weak global markets. According to HKTDC's research, as of the end of 2023, the challenges that had the most significant impact on exports at that time and

[6]World Bank Blogs (2024). *Global trade has nearly flatlined. Populism is taking a toll on growth.* Retrieved online on February 28, 2024. Website: https://blogs.worldbank.org/zh-hans/voices/global-trade-has-nearly-flatlined-populism-taking-toll-growth.

[7]MarcoMicro (2024). *Hong Kong - Imports & Exports (YoY).* Retrieved online on Februa ry 23, 2024. Website: https://www.macromicro.me/charts/13821/hk-export-and-import-yoy.

in the coming three months are, in order, the risk of economic slowdowns or recessions in overseas markets (48.6%), geopolitical tensions (17.9%), and the less positive impact of economic recovery in the Chinese mainland than expected (16.5%) (see Table 1). [8]

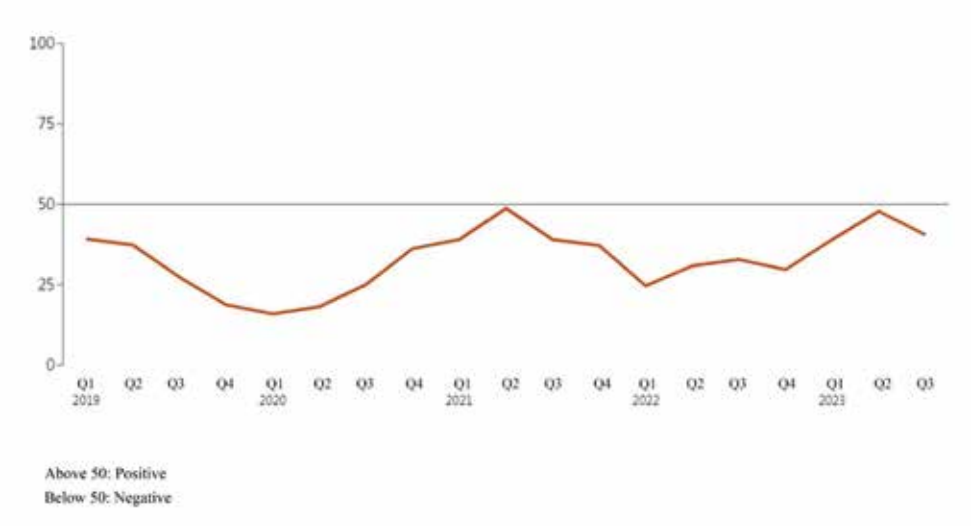
Chart2 Hong Kong's import and export trends



Source: MacroMicro

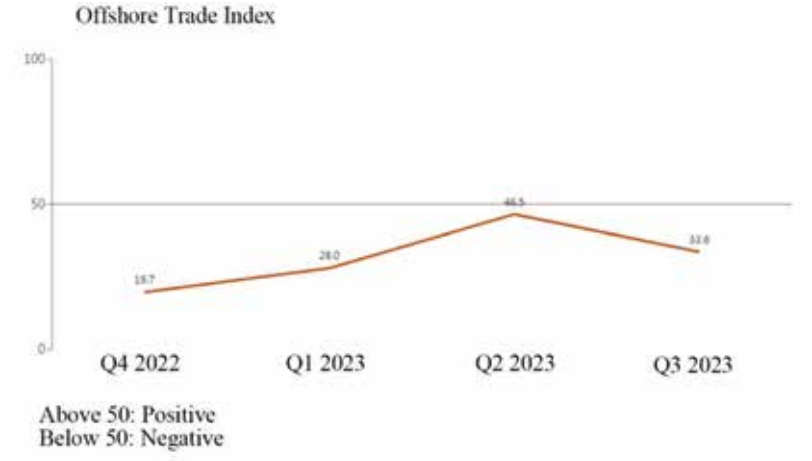
[8]HKTDC (2023). *HKTDC Export Index 3Q23: Export Sentiment Softens from Two-year High.* Retrieved online on February 20, 2024. Website: https://research.hktdc.com/sc/article/MTQ4NzAxNDQ3Mw.

Chart 3 HKTDC Export Index3



Source: HKTDC

Chart 4 HKTDC Offshore Trade Index4



Source: HKTDC

Table 1 Statistics on factors affecting trade confidence in Hong Kong's trade industry1

Q3 2023		Q2 2023	
Challenge	**Proportion (504 respondents in total)**	**Challenge**	**Proportion (504 respondents in total)**
Risk of economic slowdowns/recessions in overseas markets	48.6%	Risk of economic slowdowns/recessions in overseas markets	66.1%
Continued geopolitical tensions	17.9%	Less positive impact of economic recovery in the Chinese mainland than expected	10.9%
Less positive impact of economic recovery in the Chinese mainland than expected	16.5%	China-US trade friction	10.7%

Source: HKTDC

2.2 Less positive impact of economic recovery in the Chinese mainland than expected

As Table 1 shows, the influence of the "less positive impact of economic recovery in the Chinese mainland than expected" on Hong Kong's trade should not be underestimated besides weak global demand. According to the WTO, Hong Kong was the world's 10th largest commodity exporter in 2022. The proportion of local products in Hong Kong's exports is almost negligible (see Table 2). According to the HKSAR

Government, 46% of the transit goods handled by Hong Kong in 2022 came from the Chinese mainland and 57% were destined for the Chinese mainland.[9] Therefore, the economic situation in the Chinese mainland is bound to have a direct and significant impact on Hong Kong's trade.

Table 2 Value of and changes in Hong Kong's imports, 2021–20232

(in nominal terms)	2021		2022		2023	
	100 Million, USD	Up/down (%)	100 Million, USD	Up/down (%)	100 Million, USD	Up/down (%)
Total exports	6,360	+26.3	5,810	-8.6	5,356	-7.8
Local exports	96	+57.1	80	-15.9	84	+4.8
Transit goods	6,264	+25.9	5,730	-6.3	5,272	-8.0
Imports	6,805	+24.3	6,317	-7.2	5,955	-5.7
Total trade value	13,165	+25.3	12,127	-7.9	11,311	-6.7
Balance of trade	-445		-507		-599	

Source: HKTDC

[9]HKTDC (2024). *Economic and Trade Information on Hong Kong.* Retrieved online on J anuary 30, 2024. Website: https://research.hktdc.com/sc/article/MzIwNjkzNTY5

Since the easing of strict pandemic prevention measures, economic recovery in the Chinese mainland has been inconsistent. The GDP growth of the Chinese mainland in 2023 reached 5.2%, slightly higher than the target set at the beginning of the year and the forecasts of many foreign institutions. However, the economic recovery for the whole year of 2023 proved to be weaker than expected at the beginning of the year. This was mainly caused by three factors: First, the balance sheets of domestic residents and enterprises were damaged during the pandemic, resulting in insufficient consumption willingness of residents and enterprises, and relatively weak sustainability of recovery (see Chart 7)[10]. Second, the sluggish performance of the real estate market and the increased liquidity risk of some real estate companies led to a continuous decline in the year-on-year growth rate of real estate investment, new construction and construction data, which not only affected residents' willingness to purchase houses but also dragged down the domestic economy. Third, the overseas economy continued to cool and the foreign demand was weak.[11] The result reflected in trade from the above situation was that in 2023, the total import and export value of the Chinese mainland totaled RMB 41.76 trillion, a year-on-year increase of 0.2%. Among them, the exports reached RMB 23.77 trillion, up 0.6%, while the imports were RMB 17.99 trillion, down 0.3%. The imports and exports of trade in services totaled RMB 6,575.43 billion, up 10%. Among them, the exports reached RMB 2,685.66 billion, down 5.8%, while the imports were RMB 3,889.77 billion, up 24.4%; the deficit of trade in services was RMB

[10]JP Morgan (2023). *Where does China's recovery go from here?* Retrieved online on January 30, 2024. Website: https://privatebank.jpmorgan.com/apac/cn/insights/markets-and-investing/where-does-chinas-recovery-go-from-here

[11]Industrial and Commercial Bank of China (2023). *Dialogue with Xiao Lisheng from the Chinese Academy of Social Sciences: Recovery is the "mainline" of China's economy.* Retrieved online on February 2, 2024. Website: https://www.bj.icbc.com.cn/page/9104814436694835 20.html

1,204.11 billion.[12] Since its accession to the WTO in 2000, China has seen continued growth in its share of global exports. In 2007 and 2009, it surpassed the United States and Germany to become the largest exporter; in 2009, it surpassed Germany to become the second largest importer. However, by 2022, China's share of global imports has fallen significantly for the first time since its accession to the WTO (see Charts 5 and 6).[13] This has largely contributed to trade contraction in 2023 in Hong Kong, with the Chinese mainland as its largest trading partner (49.2%)[14] (see Chart 2).

[12]Central People's Government (2024). *China's trade in services grows by 10% in 2023.* Retrieved online on February 4, 2024. Website: https://www.gov.cn/lianbo/bumen/202402/content_6929572.htm

[13]China Macroeconomy Forum (2023). *China's foreign trade trend and forecast.* Retrieved online on February 21, 2024. Website: http://ier.ruc.edu.cn/docs/2023-09/20d115f6d50d4a298cf257c9ceb8ab42.pdf

[14]Trade and Industry Department of the Government of the Hong Kong Special Administrative Region (2024). *Hong Kong's Principal Trading Partners in 2023.* Retrieved online on February 28, 2024. Website: https://www.tid.gov.hk/tc_chi/trade_relations/mainland/trade.html

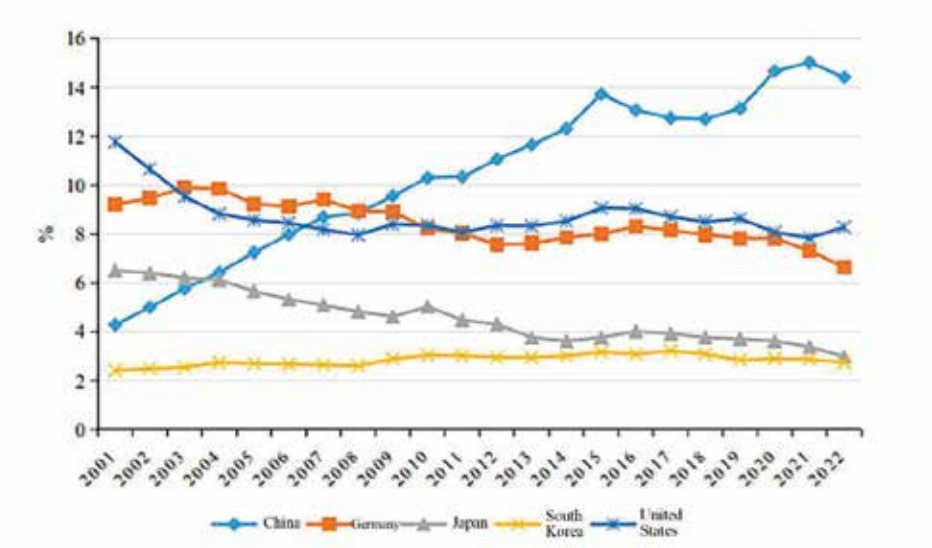
Table 3 Hong Kong's major trading partners in 20233

Ranking	**Total trade value**			**Imports**		
	Country/Region	Value (Million, HKD)	Percentage (%)	Country/Region	Value (Million, HKD)	Percentage (%)
1	Chinese mainland	4,342,685	49.2	Chinese mainland	2,022,317	43.5
2	Taiwan, China	664,747	7.5	Taiwan, China	525,905	11.3
3	United States	472,184	5.4	Singapore	329,557	7.1
4	Singapore	394,695	4.5	South Korea	223,626	4.8
5	Japan	305,897	3.5	Japan	221,499	4.8

Ranking	Local exports of HK			Transit goods		
	Country/Region	Value (Million, HKD)	Percentage (%)	Country/Region	Value (Million, HKD)	Percentage (%)
1	Chinese mainland	24,990	38.1	Chinese mainland	2,295,378	55.8
2	Taiwan, China	7,294	11.1	United States	266,339	6.5
3	United States	6,137	9.3	India	166,072	4.0
4	Switzerland	3,858	5.9	Taiwan, China	131,548	3.2
5	United Kingdom	2,757	4.2	Vietnam	110,128	2.7

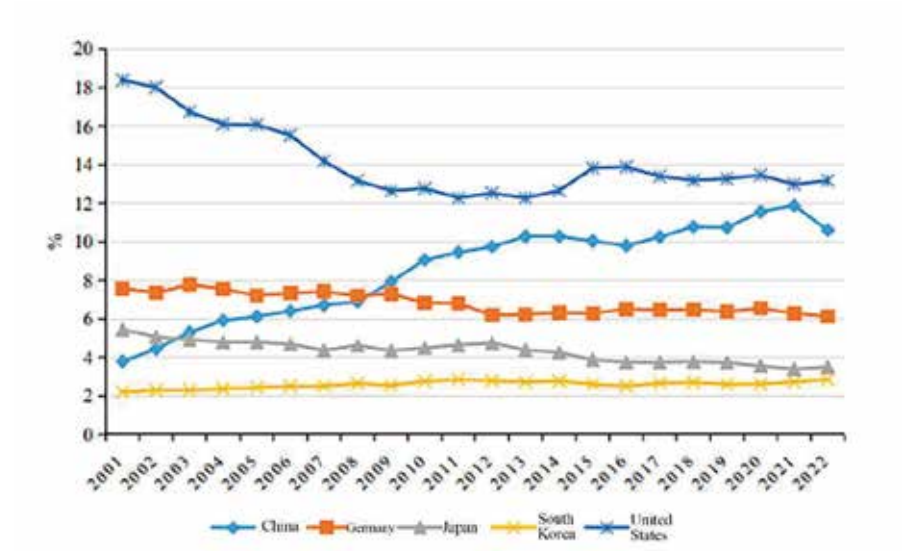
Source: Trade and Industry Department

Chart 5 Share of major economies' exports in the world's total5



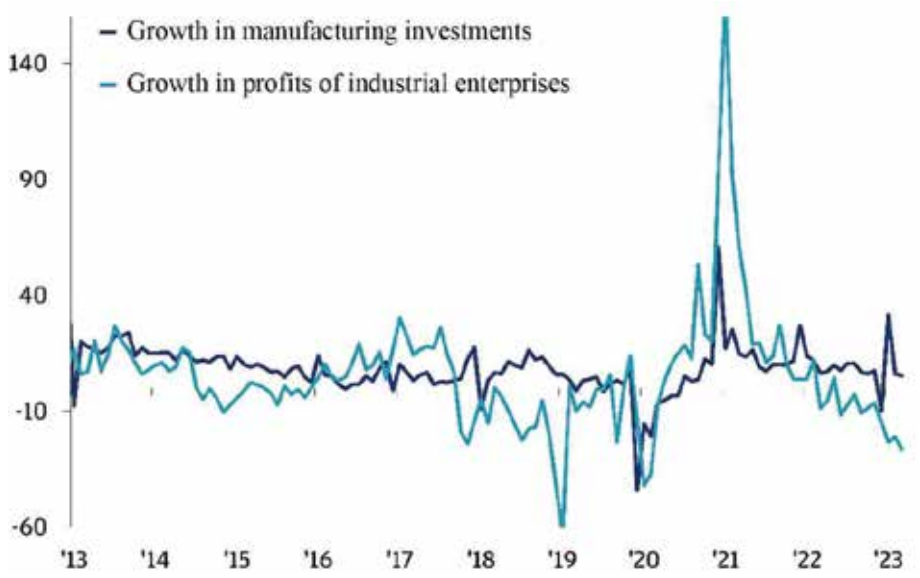
Source: HKTDC

Chart 6 Share of major economies' imports in the world's total6



Source: HKTDC

Chart 7 Manufacturing investments and profits of industrial enterprises in the Chinese mainland7



Source: J.P. Morgan

2.3 Impacts of geopolitical situations

Although the slowdowns in overseas markets and the less positive impact of economic recovery in the Chinese mainland than expected pose significant challenges, these factors are primarily short-term or cyclical in nature. In contrast, other challenges such as the impacts of geopolitical situations, the rise of competitors and the emergence of new trends in the trade industry are likely to exert structural influence over a longer period.

First, Hong Kong's entrepot trade accounts for a large proportion (see Table 2). Therefore, attention must be paid to the influence of the external environment, especially geopolitical factors. Since August 2017, when the then United States President Donald Trump ordered an investigation into whether China infringed on intellectual property rights of the United States under Section 301 of the *Trade Act of*

1974, the two countries have been caught in an increasingly fierce "protracted war" in trade, which is still going on.[15] Despite the presidential transition during the period, the United States Democratic administration still followed Trump's policy on trade with China and formulated unilateral measures such as imposing additional tariffs, restricting the transfer of intellectual property rights, and gradually advancing decoupling in technologies, markets and even supply chain systems. The United States abolished Hong Kong's trade status as an independent customs territory through some sensitive issues, bringing Hong Kong into the same scope of trade treatment as the Chinese mainland, which was the measure that imposed the most direct impact on Hong Kong. In other words, this action by the United States rendered a significant portion of the entrepot trade for exporting goods to the United States via Hong Kong for tariff preference meaningless.

Compared with the trade share lost due to the withdrawal of preferential tariff treatment, in the medium and long term, the impact is more profound in the following situation: With the increasingly obvious "decoupling" between European and North American countries and China, some multinational corporations relocated some or all of their logistics centers from Hong Kong to other countries or regions, which is one of the symbolic "symptoms" of the accelerated adjustment of global supply chains. Hong Kong is an important trade hub of electronic components and parts in the Asia-Pacific region. The electronics industry accounts for 70% of Hong Kong's exports. Among them, most of the components and parts, accounting for about three-quarters of Hong Kong's exports of electronic products, are transported to the Chinese mainland through

[15]BBC News Chinese (2019). *China-US trade war timeline: A protracted war with rising tensions.* Retrieved online on January 30, 2024. Website: https://www.bbc.com/zhongwen/simp/world-49986037

entrepot trade for processing and production purposes. Most of the finished products, accounting for about a quarter of Hong Kong's electronic exports, are consumer electronics, including various audio-visual equipment, computer products and communications equipment. Hong Kong is the world's largest exporter of integrated circuits by value, the second largest exporter of mobile phones, computer parts and camcorders, and the third largest exporter of video recording equipment. However, with the escalation of competition between China and the United States in the realms of science, technology, and military, a situation has arisen where the supply system of Europe and North America is separated from that of China in some high-tech fields. Semiconductor technology giant NVIDIA is relocating its logistics center in Hong Kong to Taiwan; some multinational corporations have also moved their logistics centers for the European and North American markets from Hong Kong to Singapore.[16] Hong Kong's waning advantage as an entrepot has led to continued contraction in exports to several important markets, even after the impact of COVID-19 faded (see Tables 2 and 4). [17]

[16]GBA Review (2023). *Lian Zhuowen, Zhang Na: Consolidating and enhancing the status of Hong Kong as a trade center (Last updated on October 13, 2023).* Retrieved online on February 23, 2024. Website: https://new.qq.com/rain/a/20231030A08SVF00

[17]HKTDC (2023). *Hong Kong's Export Outlook 2024: Modest Electronics-Led Recovery Now Anticipated.* Retrieved online on February 25, 2024. Website: https://research.hktdc.com/sc/article/MTU2MDQ4MjM3Mg

Table 4 Hong Kong's merchandise exports by major market4

	2022		Jan.–Oct. 2023		Outlook 2024
	100 Million, HKD	Up/down (%)	100 Million, HKD	Up/down (%)	Up
United States	2,927.05	-5.5	2,228.55	-10.5	
EU	3,126.17	-7.9	2,286.90	-13.0	
Japan	1,024.88	-13.8	698.95	-20.1	
Developing Asia	34,221.68	-8.3	25,410.68	-12.2	
Chinese mainland	25,707.57	-12.9	18,749.70	-13.7	
ASEAN	3,600.17	+6.5	2,714.27	-10.9	
Latin America	846.67	-8.4	615.80	-15.3	
Middle East	1,255.38	+23.4	1,105.30	+10.6	
Emerging Europe	820.57	-26.0	648.46	-4.1	
Africa	282.61	-39.4	210.04	-15.2	
Global	**45,616.50**	**-8.6**	**34,049.31**	**-11.0**	***4% to 6%***

Legend: Most optimistic; Optimistic; Moderate; Pessimistic; Most pessimistic

Source: HKTDC

In addition, special attention should be paid to the fact that the trade industry will inevitably suffer some losses under geopolitical disturbances, for which the country has introduced relevant compensatory measures or alternative schemes. However, due to some objective factors, Hong Kong may not necessarily benefit from them. While the country's trade industry has faced difficulties in recent years, the overall foreign trade situation does not appear to be significantly adverse when looking at the data alone. Because of China's large economic size and complete industrial categories, alternative schemes may be developed in some sectors. For example, according to customs statistics, the total imports and exports of the Chinese mainland reached RMB 41.76 trillion in 2023, up 0.2% year on year. Among them, the exports reached RMB 23.77 trillion, up 0.6%, while the imports were RMB 17.99 trillion, down 0.3%.[18] In other

[18]Central People's Government (2024). *SCIO briefing on China's imports and exports in 2023*. Retrieved online on January 30, 2024. Website: https://www.gov.cn/lianbo/fabu/202401/content_6925700.htm

words, the trade war did not have much impact on the trade value of the Chinese mainland. This is because trade with some countries and regions is experiencing rapid growth. For example, according to the data of the General Administration of Customs of the People's Republic of China, China's exports to Russia increased by 46.9% to about US$110.97 billion in 2023. However, this mainly benefits Xinjiang and the northeast region while it is difficult for Hong Kong to directly benefit from it.

2.4 Increasingly strong competitors

At a time when Hong Kong's trade industry has been affected by geopolitical factors, some domestic and foreign cities have formed strong competitiveness by virtue of their own unique advantages. According to the *Xinhua-Baltic International Shipping Centre Development Index Report*, Hong Kong still ranked among the top four global shipping centers in terms of the overall strength in 2023, second only to Singapore, London and Shanghai, and followed by Dubai, Rotterdam, Hamburg, Athens-Piraeus, Ningbo-Zhoushan and New York-New Jersey. However, only London, Singapore and Shanghai ranked among the world's top five in all subdivided fields. Hong Kong, which has always been famous for its high-level development of the shipping industry, was a bit inferior to them.

It goes without saying that Hong Kong's most formidable competitor in trade is Singapore, which has been the world's top international shipping center for a decade. In 2022, apart from the airport cargo volume and total merchandise trade volume, Hong Kong fell behind Singapore in other aspects such as competitiveness ranking, container throughput, and Xinhua-Baltic International Shipping Centre Development Index. With its unique geographical location, developed financial market and innovative freight option trading, Singapore has become the most active market of shipping derivatives in

Asia, dominating the rules of derivative trading and wielding significant influence over derivative pricing in the region's shipping markets.[19] Following Singapore, Shanghai is also a formidable competitor that should not be underestimated. In the above-mentioned overall strength ranking of global shipping centers, Shanghai has ranked third for four consecutive years. It also ranks fourth in shipping brokerage, maritime laws and shipping finance.[20] This also indicates that Hong Kong Port has been steadily overtaken by Shanghai Port in the overall strength.

Moreover, in 2023, Hong Kong barely made it into the world's top 10 container ports in terms of container throughput, not only ranking behind Shanghai, Singapore and Ningbo-Zhoushan, but also falling short of Shenzhen and Guangzhou, which are also in Guangdong-Hong Kong-Macao Greater Bay Area.[21] According to the latest statistics in 2023, the cargo throughput of four ports located on both sides of the Pearl River in the Greater Bay Area—Guangzhou Port, Shenzhen Port, Zhuhai Port and Dongguan Port—has reached 100 million tons. These ports are adjacent to the vast and thriving industrial areas in the Chinese mainland, so it is easier for them to gain advantages over Hong Kong in terms of logistics supporting resources, wharf area, storage area, cold chain equipment and data center supporting facilities. Fortunately,

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[19]Ta Kung Pao (2023). *Lian Zhuowen, Zhang Na: Consolidating and enhancing the statu s of Hong Kong as a trade center.* Retrieved online on January 30, 2024. Website: https://ww w.takungpao.com/opinion/233119/2023/0919/893976.html

[20]Shanghai Shipping Exchange (2023). *The 2023 Xinhua-Baltic International Shipping Ce ntre Development Index released, with Shanghai ranking third for four consecutive years!* Ret rieved online on January 30, 2024. Website: https://www.sse.net.cn/cninfo/HotInfo/202309/t202 30922_1381569.jsp

[21]The world's top 10 container ports in 2023 are Port of Shanghai (1), Port of Singapore (2), Port of Ningbo-Zhoushan (3), Port of Shenzhen (4), Port of Qingdao (5), Port of Guang zhou (6), Port of Busan (7), Port of Tianjin (8), Port of Jebel Ali (9), and Port of Hong Kon g (10). Contrary to prior industry expectations, Port of Hong Kong did not fall out of the top 10 but Port of Rotterdam unexpectedly dropped to the 12th position.

these ports and Hong Kong Port are aligned within the framework of coordinated development in the Greater Bay Area. Major port operators in Hong Kong either control or hold shares in various port resources in Shenzhen, Guangzhou, and other locations. As a result, combined ports have been developed, which help avoid homogeneous competition to a certain extent.

Besides, in recent years, some emerging shipping nodes in the Chinese mainland were leveraging their unique advantages to bolster their competitiveness, gradually developing into potential rivals to Hong Kong. For example, Weihai of Shandong Province signed a cooperation agreement with Incheon of South Korea to advance the construction of a logistics center in Northeast Asia, strengthen cooperation between sea ports and airports, establish a port cooperation mechanism featuring information exchange, mutual recognition of supervision, and mutual assistance in law enforcement, carry out multimodal transport, enhance warehousing and concentration capacities, and build a cross-border logistics network. This move aims to attract more cross-border e-commerce platform enterprises to relocate their distribution centers in Europe, North America and Hong Kong to Weihai, making it a global cargo collection, distribution and transfer center and overseas warehouse to serve domestic and foreign markets.

2.5 Need for further enhancement of Hong Kong's resilience to emerging trends of trade

In recent years, the global trade pattern has undergone significant changes, with regionalization of trade becoming increasingly prominent, and Asia, especially China, has continued to improve its position in global trade. From the perspective of trade

forms, digital trade such as cross-border e-commerce and digital service trade has been booming.22 Therefore, Hong Kong's resilience to emerging trade trends needs to be strengthened.

2.5.1 Digital transformation of trade

In the past few years, COVID-19 has objectively catalyzed the integration of the Internet and big data with traditional foreign trade industries. It has enhanced the efficiency of online transaction matching, customs declaration and clearance, promoted the precision marketing and customized design for foreign trade enterprises through big data analysis, and accelerated the digital development of global trade. The "digitization of trade" in turn expedited the development of "trade in digital services". Digital trade is becoming a new trend of international trade development and a new growth driver for its future development. According to the *Digital Trade Development and Cooperation Report 2023* jointly released by the Development Research Center of the State Council and China Academy of Information and Communications Technology, in 2022, the size of global trade in digital services reached US$3.82 trillion, accounting for 53.7% of global trade in services, a substantial proportion.[23] According to the WTO, from 2019 to 2022, global digital trade grew by 36.9%, higher than the growth of trade

[22]Bank of China Research Institute (2021). *Macroeconomic Observation, Issue 63 of 2021 (Total Issue 386): New changes in global trade landscape and countermeasures in the post-pandemic era (Last updated on November 15, 2021).* Retrieved online on January 30, 2024. Website: https://pdf.dfcfw.com/pdf/H3_AP202111151529174692_1.pdf?1636988048000.pdf

[23]MIIT News (2023). *Digital trade is emerging as a new trend in international trade development.* Retrieved online on February 27, 2024. Website: https://www.cnii.com.cn/rmydb/202312/t20231204_526238.html

in services (12.9%) and trade in goods (31.0%). Digital trade has become a new trend and growth driver for global trade development. [24]

However, the development of digital trade also faces many difficulties and challenges, including the lack of uniform international digital trade rules, the need for enhancements in China's legislative and regulatory mechanisms for emerging technologies and business models, the complexities of digital transformation in the trade finance industry, and a significant shortage of versatile fintech talent. In addition, the challenge in Hong Kong's trade digitization is more prominently manifested in the reluctance of various participants in trade to transmit and exchange previously paper-based data in electronic and digital forms. However, if any one party is absent, the data transmission will be interrupted, significantly reducing efficiency. At the end of 2018, Hong Kong Monetary Authority and several major banks jointly developed eTrade Connect, Hong Kong's first large-scale cross-bank digital blockchain trading platform. It aims to use advanced distributed ledger technology to reduce the use of paper documents by customers and trading partners through information sharing, thus improving the efficiency of trade financing. However, the number and progress of business participation still fell short of expectations. Although some subsequent optimization measures have been adopted, from a business perspective, they have not significantly aided banks in reviewing financing backgrounds due to the absence of trade information and the lack of document verification by counterparties on the

[24]News of the Communist Party of China (2023). *Digital trade injects new momentum in to global economic and trade cooperation.* Retrieved online on February 26, 2024. Website: h ttp://theory.people.com.cn/BIG5/n1/2023/1130/c40531-40128720.html

platform. In the future, ongoing efforts will be necessary to expand digitization to other parts of the trade chain. [25]

2.5.2 Cross-border e-commerce

The digital transformation of traditional trade in goods has spurred the rapid development of new business forms and models such as cross-border e-commerce. According to the statistics and calculation of the WTO, the global business-to-customer (B2C) cross-border e-commerce trade value was expected to rise from US$780 billion in 2019 to US$4.8 trillion in 2026, with a compound growth rate reaching 27%. According to the data of IMARC Group, a market research institution, the size of the global e-commerce market reached US$16.6 trillion in 2022 and was expected to soar to US$21.1 trillion in 2023. It will continue to grow at a compound growth rate of 27.43% and reach US$70.9 trillion in 2028.[26] Based on Amazon's statistics, the current annual growth rate of major global e-commerce markets generally exceeds 10%. It is estimated that by 2024, the global retail e-commerce sales will reach US$6.5 trillion,[27] accounting for 21.2% of global retail sales. Amazon also expected that the growth of global cross-border e-commerce sales will double in five years.[28] In other words, any

[25]Retrieved online on February 28, 2024. Website: https://igtb.bochk.com/cm_wcm/FreeTradeZone/files/All_03_1_3/9f8c0f23b5c921030e2aeaab2fb342e4/ST0004-%E6%B5%85%E6%9E%90%E6%95%B0%E5%AD%97%E5%8C%96%E8%B4%B8%E6%98%93%E5%89%8D%E6%B2%BF%E5%8F%91%E5%B1%95%E8%B6%8B%E5%8A%BF.pdf

[26]Oceanpayment (2023). *E-commerce market: Global industry trends, share, size, growth, opportunity, and forecast for 2023-2028 in 2022*. Retrieved online on January 30, 2024. Website: https://www.oceanpayment.com/cn/views/11998/

[27]Insider Intelligence (2023). *Global Retail Ecommerce Forecast 2023: Welcome to the Slower-Growth New Normal*. Retrieved online on January 30, 2024. Website: https://www.insiderintelligence.com/content/global-retail-ecommerce-forecast-2023

[28]Juniper Research (2023). *Digital Wallets: Platform Analysis, Key Trends & Market Forecasts 2023–2028*. Retrieved online on January 30, 2024. Website: https://www.juniperresearch.com/press/33-of-ecommerce-spend-to-be-cross-border-by-2028/

city that relies heavily on trade must consider e-commerce represented by cross-border e-commerce as one of the key areas for its future development.

Chart 8 Global e-commerce development trends8



Source: Central China Development Research Institute, Henan[29]

As one of the international trade centers, Hong Kong boasts advanced cross-border e-commerce infrastructure and significant development potential, attracting over 4.5 million online consumers. Some studies further estimate that the revenue of local B2C e-commerce market will reach US$35.22 billion (about HK$274.72 billion) in 2027, with an estimated annual growth rate of 10% over the next four years.[30] However, Hong Kong's development in cross-border e-commerce is not satisfactory at this stage. From the government's perspective, the HKSAR Government's financial support for developing cross-border e-commerce and platforms is insufficient, with limited subsidies, and relevant policies are not well-developed; from the perspective of

[29]Henan Zhongyuan Innovation Development Institute (2021). *The development situation and countermeasures of cross-border e-commerce in China under the new development patter n of "dual circulation"*. Retrieved online on January 30, 2024. Website: https://xianxiao.ssap.c om.cn/catalog/5498935.html

[30]HKU Business School (2023). *2023 Cross-Border E-Commerce Platforms in Hong Kon g Market Research*. Retrieved online on January 30, 2024. Website: https://pweb.fbe.hku/analy tics/CBECMarketResearch2023Chi.pdf

entrepreneurs and practitioners, many small and medium-sized enterprises and retailers in Hong Kong do not know how to enter e-commerce platforms and collaborate with them, resulting in a lack of active participation. Data shows that in 2020, only about 11% of business establishments in Hong Kong had used e-commerce as a sales channel; from a social perspective, in 2021, e-commerce sales of local enterprises in Hong Kong accounted for only 6.6% of total business revenue, indicating a low level of e-commerce adoption in the industrial and commercial circles. Although Hong Kong has numerous e-commerce associations, they are small in scale and have limited exploration in the field of cross-border e-commerce; in other aspects, Hong Kong products face complex product certification standards if they want to be sold to the Chinese mainland. Currently, Hong Kong products are constrained by logistics and warehouse limitations, resulting in small scale and limited quantities of products sold to the Chinese mainland. If Hong Kong wants to strongly promote cross-border e-commerce, it should focus on addressing the current limitations.

2.5.3 New offshore trade

According to information released by the HKSAR Government, taking the pre-pandemic year 2019 as an example, based on a 6.3% gross profit margin for offshore merchanting and a 6.2% commission rate for offshore trade-related services, Hong Kong's offshore merchandise trade brought substantial revenue to Hong Kong. Although the pandemic had some impact on Hong Kong's trade industry, offshore trade has generally shown steady growth. By the end of 2022, the gross profit it generated was equivalent to 10% of Hong Kong's GDP. Notably, Hong Kong traders have made full use of global business networks, a loose financial environment, and flexible business practices to vigorously develop offshore trade. The scale of typical offshore

trade has gradually surpassed that of entrepot trade, driving the transformation of the financial industry and forming Hong Kong's characteristic offshore finance. Therefore, to consolidate its role as an offshore financial center in the future, Hong Kong must continuously adopt new offshore trade models and further strengthen its role as an offshore trade center.

Table 5 The Contribution of Hong Kong's Offshore Trade to Its GDP

Value of goods	**2021**	**2022**
Merchanting (HK$ million)	4,622,041	4,848,025
Gross profit/Commission	**2021**	**2022**
Offshore goods trade (HK$ million)	297,498	292,655
Merchanting-gross profit (HK$ million)	268,765	264,437
Goods and services relating to offshore transactions-commissions (HK$ million)	28,733	28,218
Total offshore trade gross profit		292,655
HK GDP 2022 (HK$ million)		2,827,009
Proportion		0.103521

Source: Census and Statistics Department of the Government of the Hong Kong Special Administrative Region and the Research Team from One Country Two Systems Research Institute

Traditional offshore trade mainly includes: 1) Transit Trade; 2) Entrepot Trade, also known as Intermediary Trade or Re-export; and 3) Merchanting, the typical form of offshore trade. When Hong Kong compiles statistics on offshore trade, it uses the concept of "offshore merchandise trade" and divides it into two parts: one part is "merchanting," which is the "merchanting" mentioned above; the other part is "merchandising for offshore transactions". [31]

[31]China Forex (2021). *Developing new offshore trade, promoting institutional integration innovation.* Retrieved online on February 28, 2024. Website: http://www.chinaforex.com.cn/index.php/cms/item-view-id-51333.shtml

Offshore trade is characterized by the separation of orders, goods, and capital flows, allowing trade intermediaries to coordinate global resources across borders. As international trade develops, offshore trade is transitioning from traditional methods to new forms. According to the definition of new offshore trade in the People's Bank of China's Document No. 329, new offshore international trade has three typical features: transactions occur between residents and non-residents, goods do not cross national borders, and trade is not included in customs statistics. The new offshore trade models mainly include: the offshore merchanting model, the "global procurement trade model, the commissioned overseas processing" model, the "domestic material export + overseas processing" model, the "domestic material export + overseas material procurement + overseas processing" model, the "overseas material procurement + overseas processing" model, and overseas goods purchasing model for contracted projects. [32] These increasingly complex new offshore trade models also place higher demands on related services such as insurance, financing, arbitration, talent training, and the establishment of trade-related service standards and rules.

[32]The Chinese Banker (2022). *Business model of new offshore trade and development suggestions.* Retrieved online on February 28, 2024. Website: https://www.sohu.com/a/589617726_603349

Chapter III

Recommendations for the Future Development of Hong Kong as an International Trade Center

Chapter III Recommendations for the Future Development of Hong Kong as an International Trade Center

3.1 Digital transformation of Hong Kong as an international trade center

China's 14th Five-Year Plan proposes supporting Hong Kong in consolidating its inherent advantages as an international trade center and building an international innovation and technology center. The Government of the HKSAR subsequently formulated the *Hong Kong Innovation and Technology Development Blueprint*, establishing a clear development path and systematic strategic plan for Hong Kong's innovation and technology development over the next five to ten years. It proposes leveraging new digital technologies to develop Web 3.0 industries, achieving Hong Kong's technological and economic transformation, and ensuring continued competitiveness in global technology and economy.

In the 27 years since the handover, Hong Kong's industrial development positioning has not been sufficiently focused. Currently, various sectors are willing to use digitalization to change the stagnant economic situation. However, digital upgrading involves substantial resources, and their allocation should focus on Hong Kong's role positioning while considering the development needs of the whole country of China. Analyzing from the perspective of the proportion of local economic development, digital upgrading should first focus on the financial industry. As an international financial center, Hong Kong's digital upgrading has significant implications for improving transaction efficiency, creating wealth, and connecting the

flow of people, goods, information, and capital. Secondly, it should focus on the trade and logistics industry.

The trade and logistics industry is a pillar of Hong Kong's economic development, and with the advancement of digital technologies, informatization, and digitalization have become key features of trade activities. Hong Kong can leverage technologies such as cloud computing, the Internet of Things, blockchain, artificial intelligence, big data, and data analysis tools to create comprehensive digital platforms, including an international trade management service platform, that enable new models of intelligent customs clearance for import trade. These digital technologies can facilitate functional integration and information interconnection with the Chinese mainland and neighboring countries' port systems, providing integrated customs clearance and convenient transportation services for cross-border trade. At the same time, Hong Kong should actively incorporate commercial supply chain systems from regions like the Yangtze River Delta and Guangdong-Hong Kong-Macao Greater Bay Area, as well as from neighboring countries, to construct a supply chain network centered on Hong Kong with other key areas as nodes. By leveraging its financial strengths, Hong Kong can use supply chain finance to accelerate supply chain integration and growth in financing business, ultimately achieving the digital transformation of its role as an international trade center.

3.1.1 The concept and application of digital transformation and comprehensive digital platforms

(1) Digital transformation of trade

China's *14th Five-Year Plan for Digital Economy* clearly states the need to accelerate the digitalization of trade. Digitalization should be used to drive changes in trade entities and methods while creating a favorable environment for trade digitalization. Policies should be improved to promote digital trade and institutional support and legal protections should be strengthened.

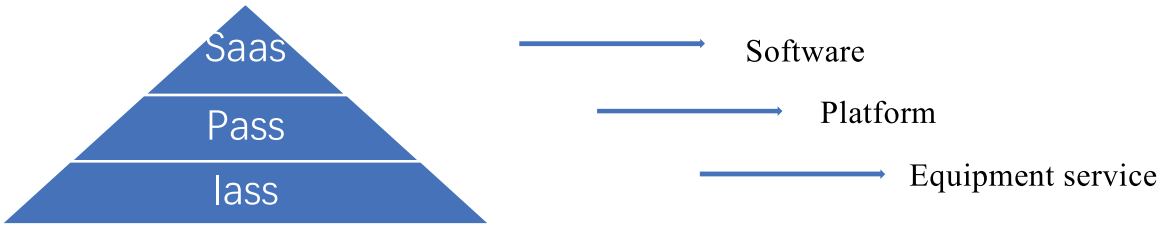
To maintain its advantage as an international trade center, Hong Kong should continue to attract multinational corporations in the service industry to establish operational headquarters, research and design centers, procurement and logistics centers, and settlement centers in the city. It should also actively recruit high-quality domestic and international enterprises and teams, enhancing the "bringing in" of international innovation resources to jointly build a "comprehensive digital platform".

In conjunction with these efforts, Hong Kong needs to maintain close communication with relevant national ministries and departments to construct secure and convenient international internet data channels and dedicated international data information channels for typical scenarios such as cross-border delivery logistics, cross-border payments, and supply chain management.

(2) Comprehensive digital platforms

A comprehensive digital platform is not about taking on every task, but rather serves as a bridge, creating models for common needs and building foundational

infrastructure. It leaves upper-level applications for users to develop according to their specific requirements, providing only IaaS[33] and PASS[34], while allowing clients to develop their own SaaS[35]. In other words, all users connected to the platform system can share basic services such as information transmission, verification, and computation, eliminating the need for individual development and avoiding redundant construction. On the client side, users can implement personalized development based on their own needs.



The core task in promoting trade activities is to ensure timeliness, security, and equality of information flow. The comprehensive digital platform solution, along with its underlying series of digital solutions, is the best approach to facilitate this information flow.

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[33]**IaaS** (Infrastructure as a Service) is the foundational layer. At this layer, IT infrastructure resources such as computing, networking, and storage are aggregated into a resource pool through virtualization and dynamism. A resource pool is a collection of computing power. End users (enterprises) can obtain the required computing resources through the network to run their own business systems. This approach allows users to use these resources for a fee without having to build the infrastructure themselves.

[34]Above the IaaS layer is the **PaaS** (Platform as a Service) layer. In addition to providing basic computing power, this layer offers a development and operation environment for business applications. It supplies IT components including application code, SDKs, operating systems, and APIs, enabling individual developers and enterprises to embed corresponding functional modules into software or hardware to enhance development efficiency. For enterprises or end users, the services at this layer provide a fast and cost-effective environment for business innovation.

[35]The top layer is **SaaS** (Software as a Service). In fact, SaaS existed before the advent of cloud computing, and it has developed further with the advancement of cloud computing technology. SaaS applications are "ready to use" and do not require installation by the user; software upgrades and maintenance are handled without the need for end users' involvement. At the same time, it is an on-demand software with incomparable advantages over traditional software that cannot be returned after purchase.

The comprehensive digital platform can improve the transmission efficiency of communication, business flow, logistics, and capital flow through more standardized, convenient, and secure information transmission, thereby creating a comparative advantage within the industry. For example, if procurement information, logistics information, and customs declaration documents can be accurately and transparently synchronized with customs, it will greatly reduce the approval time for customs clearance documents, significantly compress port storage and transmission processes, reduce warehouse receipt pledges, and ultimately lower costs.

Another key aspect of the comprehensive digital platform in realizing these functions lies in exploring the use of blockchain technology. Today, blockchain has become a fundamental network infrastructure, significantly enhancing the authenticity, convenience, and timeliness of information transmission, thereby achieving cost reduction and efficiency improvement. Some companies from the Chinese mainland that have entered Hong Kong in preparation for "going global" believe that the application of blockchain in the trade industry goes beyond mere information transmission. More importantly, it provides comprehensive solutions centered around the "integration of four flows" in the supply chain (information flow,[36] business flow[37], logistics, and capital flow).

[36]Information Flow: This includes contracts, customs documents, and various clearance certificates.

[37]Business Flow: This refers to the flow of transactions, specifically the transfer of ownership of goods, which constitutes a non-physical movement.

(3) How trade enterprises can utilize comprehensive digital platforms to achieve digital transformation

From an enterprise perspective, the core of digital transformation in the trade industry encompasses four dimensions: personnel (organizational strategy and staff skills), technology (data, integration, and information security), resources (equipment and networks), and operations (design, logistics, and services).

Based on this, the application of comprehensive digital platforms for digital transformation in the trade industry can be discussed in three stages: the exploration stage, the implementation stage, and the in-depth application stage.

I. The exploration stage

In this stage, enterprises have developed initial plans for implementing digital transformation and have begun to put them into practice, focusing on digital business design for core processes such as design, production, logistics, and services. Aligning with their own development visions, enterprises are refining their core business values and leveraging platform services provided by industrial internet platforms, including resource subscription, data sharing, and capability collaboration. The ultimate goal is to achieve a balance between cost reduction, quality improvement, efficiency enhancement, and resource allocation.

During this stage, enterprises can rely on the resources of the comprehensive digital platform to optimize configurations, control costs, and increase productivity; simultaneously, they can identify key business scenarios that align with digital technology applications, enabling them to focus on transforming and upgrading core business areas.

Ⅱ. The implementation stage

Enterprises undertake digital transformation of their core equipment and business activities, achieving data collection, analysis, and visualization across the entire production and manufacturing process. They widely adopt digital equipment, with key process equipment featuring standard communication interfaces that support mainstream communication protocols, marking the beginning of the implementation stage of digital transformation.

During this stage, enterprises can leverage the comprehensive digital platform to apply automation technology, sensor technology, information technology, and communication technology to upgrade various warehousing and logistics equipment and information systems. This enables interconnection and intercommunication between equipment, as well as the collection, storage, and display of core data throughout the process. This can achieve data sharing between equipment and equipment, equipment and systems, and systems and systems.

Ⅲ. The in-depth application stage

Enterprises fully integrate new-generation information technologies such as the Internet, big data, and artificial intelligence with their production and operational management activities. Based on data analysis and model-driven approaches, they effectively enhance their decision-making capabilities. Building upon the foundation of transparent information collaboration, enterprises use technologies like the Internet, big data, and AI to codify and model the knowledge accumulated at various stages of core business processes (such as planning, scheduling, quality control, and traceability). These models are then used to predict future events, marking the entry into the in-depth application stage of digital transformation. At this stage, new-generation information

technologies are thoroughly integrated with production and operational management activities. The use of data analysis and model-driven approaches significantly improves the level of decision-making, gradually building enterprises' core competitiveness.

3.1.2 Reference cases for comprehensive digital platforms

Establishing a digital information center is not particularly challenging from a technical standpoint, as considerable technological foundations already exist. Singapore and Hong Kong have previously developed similar projects.

(1) Singapore: Networked trade platform[38]

Singapore initiated the development of the "Networked Trade Platform" (NTP) a decade ago. The NTP is an initiative of the entire Singaporean government system, led by Singapore Customs and jointly participated in by the Ministry of Finance, Ministry of Trade and Industry, Ministry of Transport, Civil Aviation Authority of Singapore, Economic Development Board, Enterprise Singapore, Government Technology Agency, Infocomm Media Development Authority, Maritime and Port Authority of Singapore, and Monetary Authority of Singapore. Authorities responsible for regulating the import, export, or transshipment of specific goods have also joined the NTP.

The goal of the NTP is to become a national-level trade information ecosystem, aiming to establish Singapore as a world-leading center for trade, supply chain, and trade finance.

[38]Government of Singapore (2024). *The Networked Trade Platform (NTP)*. Retrieved online on February 6, 2024. Website: https://www.ntp.gov.sg/#/

The NTP replaces the functions of the previous TradeNet, which provided trade-related applications, and TradeXchange, which connected trade and logistics sectors, offering services beyond existing systems. The specific development objectives of this service platform are: to become a one-stop trade information management system interconnected with other platforms; to be the next-generation platform providing various trade-related services; to serve as an open innovation platform developing new insights and services through cross-industry data; and to function as a digital document hub that reduces costs and streamlines processes by reusing data.

(2) Hong Kong SAR: "Commercial data interchange" [39]

Hong Kong Monetary Authority (HKMA) officially launched the Commercial Data Interchange (CDI) in October 2022, aiming to provide a single interface connection for each bank and data provider. This reduces the need for banks to establish point-to-point connections with commercial data sources individually, thus facilitating data sharing. The HKMA is exploring with other government departments to share more data with banks through the connection of CDI and the Consented Data Exchange Gateway, to further promote the widespread application of CDI.

CDI covers payment-related data, but it's not just for banks; it's also open to other businesses. Compared to multiple departments having their own systems, CDI's one-stop service advantage is very apparent.

According to CDI's experience, data providers are companies that collect the digital footprints of data owners. Data owners (i.e., SMEs) can authorize data providers

[39]Hong Kong Monetary Authority (2024). *About Commercial Data Interchange.* Retrieved online on February 6, 2024. Website: https://cdi.hkma.gov.hk/

through CDI to provide commercial data to data consumers for various purposes, such as loan applications.

Data users (i.e., financial institutions) can utilize the commercial data provided by data providers to improve services, such as loan approvals. Analysis service providers offer analytical services to data users, while solution providers offer various value-added services to the CDI ecosystem.

3.1.3 The necessity for Hong Kong to develop comprehensive digital platforms

As a powerful tool for promoting regional trade development, comprehensive digital platforms are being actively developed by major trading cities on the Chinese mainland, including Guangzhou and Shanghai. However, developing such platforms in Hong Kong has more prominent advantages and urgency.

Regarding urgency, it must be recognized that if Hong Kong takes the lead in building a large platform, it will gain a comparative advantage in the industry, which is beneficial for consolidating and strengthening Hong Kong's trade position. Conversely, if Hong Kong waits for the Chinese mainland or other foreign cities to build such platforms first and then joins passively, Hong Kong's future trade environment may become more challenging.

Data convergence benefits all parties involved in trade, specifically:

First, for SMEs, a comprehensive digital platform greatly reduces operational burdens. Based on previous projects supporting SME development with open public data, SMEs face many different systems in their operations. Cross-border situations are

even more complex due to different domestic and international laws and regulations. Completing various procedures like customs declaration, logistics, and payments on a "one-stop" integrated service platform would significantly reduce the burden on SMEs.

Second, for large enterprises, a comprehensive digital platform will help maintain market confidence. A system consolidating financial, accounting, lending, and logistics data of target companies (potential customers, suppliers) for selective viewing within legal limits can greatly prevent fraud and enhance market confidence.

Third, for the banking system, it helps reduce risks. Banks can integrate data from various dimensions: travel records, customs clearance records, investment and financing data, and financial and audit records of their clients. Accessing and sharing this data among different banks is very beneficial for reducing the risks faced by banks. In turn, banks can better provide services to support trade activities (including both onshore and offshore trade).

Lastly, public sectors can use digital platforms to more easily monitor commercial operations and effectively regulate them (including cross-border regulation), thereby providing public services more efficiently.

3.1.4 Advantages of Hong Kong in developing comprehensive digital platforms

First, as mentioned earlier in this report, Hong Kong's entire trade process is relatively standardized and fast, giving it a traditional advantage. Moreover, the Hong Kong Monetary Authority has some experience in building digital platforms, which can serve as a reference.

Second, Hong Kong can provide relevant services for financial innovation. The application of blockchain technology on large platforms should be centered around blockchain finance, which requires corresponding financial service innovations. Hong Kong is currently promoting the development of Web 3.0. In this scenario, payments related to trade (and other cross-border services) no longer need to rely on the traditional foreign exchange system of the banks, but can be settled in cryptocurrencies. However, due to the long settlement period, profits may be affected by the fluctuations of cryptocurrencies. Therefore, there is a great need for issuing stablecoins for cryptocurrencies to fully leverage the flexibility of virtual cryptocurrencies. Issuing stablecoins can only be achieved in Hong Kong, where financial regulations are relatively flexible and professional financial services are advanced.

Third, Hong Kong society is the best advocate for breaking down data barriers in the public sector. As mentioned above, even on the Chinese mainland, the concept of large platforms has not achieved ideal practical results when implemented in the cross-border e-commerce field; supply chain finance attempts by enterprises from the Chinese mainland have not met the expected outcomes in Hong Kong either. Key reasons for this include the inability to connect with customs data. This is partly due to legal restrictions, and partly because the data organized by customs according to their statistical criteria cannot be linked to trade data, making it difficult for the trade industry to utilize directly. In terms of reforming customs rules, Hong Kong's trade and shipping industries and the HKSAR Government can more easily reach a consensus, giving them a clear communication advantage over other entities.

3.1.5 Strategic choices for Hong Kong in developing comprehensive digital platforms

The implementation and operation of a comprehensive digital platform can be divided into two stages: initial construction and subsequent operation and promotion.

(1) Options for the construction phase

First option: The government funds the project and commissions a third party (a collaboration of multiple enterprises) to build a large platform; second option: The government takes the lead, with multiple capable and well-known industry enterprises jointly funding the construction, thereby obtaining certain operational concessions. Objectively, small and medium-sized enterprises lack the resources to create large-scale digital platforms. Large enterprises, affected by external factors such as the international business environment, currently find it difficult to allocate adequate resources for such projects. Even if they could build a large platform, it would likely be for their use, making it difficult for SMEs to overcome challenges and join these platforms. This would ultimately lead to a polarized situation in terms of digitalization. Government-led initiation of this project can maximize the incorporation of resources from all parties, taking into account the needs of both large enterprises and SMEs.

(2) Feasible practices for the operational phase

As a government asset, the platform could be coordinated by the government and entrusted to enterprises for operation. These enterprises could be permitted to charge appropriate service fees to platform users, thereby creating a self-sustaining business cycle.

Platform operation requires a large number of relevant professionals. Large enterprises (with advantages in "talent acquisition") are in a relatively better position, while SMEs find it difficult. This further highlights the importance of opening a basic infrastructure-like comprehensive digital platform to everyone; trade is divided into many categories, and different types of trade require different data. Creating a comprehensive service platform compatible with various trade categories would require enormous resources, and the scale of the user base is uncertain. This also necessitates government coordination during the operational process.

During the initial operation of the platform, there may be a shortage of users, which would significantly increase the burden and uncertainty for the enterprises developing the system, potentially leading to project failure. If the government steps in to coordinate from a higher level, overcoming cross-departmental communication barriers, this problem could be solved.

(3) User acquisition and promotion of the platform

Given Hong Kong's limited market size, the significance of building and operating a large platform lies in consolidating and expanding Hong Kong's foreign trade. Therefore, acquiring users is crucial.

At the enterprise level, as long as the services provided by the platform can bring tangible benefits, such as faster and more secure information transmission, cheaper logistics, and more professional and low-threshold specialized services, there will be motivation to join the platform.

At the government level, governments on the Chinese mainland, driven by their own needs to expand trade channels and enhance exchanges with Hong Kong and

Macao, will encourage local enterprises to join the platform to varying degrees, and may even actively introduce the platform to local business circles. If the platform operates well, there's a high chance that local governments on the Chinese mainland will draw from this experience to create their platforms or upgrade existing similar platforms, achieving interconnection with the Hong Kong platform.

From an international promotion perspective, countries and regions with close trade relations with Hong Kong are expected to gradually access the platform based on actual needs. For some countries with tense diplomatic relations with China, additional efforts will be needed. For example, it should be made clear that the platform is an asset of the HKSAR Government, ensuring its credibility and data security. The use of the platform by enterprises, whether fully, partially, or not at all, is entirely voluntary and never mandatory. The platform will only involve trade volume data and will not include personal information or other sensitive data. Additionally, both the platform and the enterprises using it must comply with relevant local laws and regulations concerning trade. Through the above clarifications, statements, and compliance efforts, we can demonstrate our utmost sincerity and feasibility in developing trade cooperation.

(4) Promoting the migration of the trade industry to the cloud and the integration of trade data onto the blockchain

Industry cloud is a collaborative effort between government agencies and cloud service providers, aimed at digital transformation, smart upgrades, and integrated innovation. It is built on cloud computing platforms and incorporates technologies such as artificial intelligence and blockchain, along with industry innovations and expert services. This inclusive digital enablement platform drives industrial digitalization and

digital industrialization, empowering the innovative development of urban industrial clusters.

The core technological capabilities primarily include integrating emerging digital technologies such as the Internet of Things, big data, blockchain, and artificial intelligence on cloud computing platforms to form fundamental technological capabilities. This platform provides enterprises with technological capabilities for intelligent upgrading across the entire industrial chain, covering design, production, logistics, sales, and service stages. It develops digital collaboration capabilities for supply chains, addressing the needs of industry chain integration and digital application requirements across various sectors. Leveraging the industry cloud ecosystem, it integrates the capabilities of ecosystem partners to offer services such as digital transformation diagnostics, full-chain expert services, developer innovation, and digital talent cultivation. The platform's operations emphasize that local industry cloud service providers need to deliver a full range of digital support services. These services, built around core cloud technologies and local industry needs, span the entire business cycle. They include joint innovation initiatives, tech-driven solutions, industry-specific innovations, business empowerment strategies, and talent development programs. Typical industry applications consist of deep integration of the industry cloud with sectors such as manufacturing, trade, digital finance, healthcare, education, and digital culture. This integration has led to mature solutions that promote overall industrial digitalization, are replicable, and can be easily promoted.

(5) Setting up a dedicated government department to support the creation of local cloud service platforms

Migrating operations to the cloud is a typical approach to digital transformation. Accelerating cloud services for Hong Kong's government and enterprises requires establishing a dedicated government department to strengthen the top-level design and planning for the development of the cloud computing industry. Cloud computing should be treated as a systematic project. At the level of technological innovation in Hong Kong, specialized medium- to long-term development plans and specific implementation schemes need to be formulated for the cloud computing industry. Medium- to long-term industrial policies should be used to accelerate innovation in cloud computing, incentivize independent innovation by enterprises, and guide industry-led innovation. Key support should be given to core cloud computing enterprises that possess advanced technologies, engage in independent research and development, and demonstrate strong sustainability. This would help them grow stronger and larger, better serving Hong Kong's critical industries with security and innovation support. It's important to promote a deep and widespread consensus on the "essence of cloud computing" across various sectors in Hong Kong. The use of public cloud services by Hong Kong enterprises should be encouraged. Hong Kong needs a variety of cloud platforms, including public clouds, private clouds, edge clouds, and industry-specific clouds. This diversity would enable the HKSAR Government and businesses to make good use of cloud services, leveraging the economic, technological, and innovative advantages of cloud computing.

In light of the current complex international geopolitical and competitive landscape, the need for full-stack, independently controllable, and sustainably developed cloud computing platforms to provide services for applications is becoming increasingly urgent. Building sustainable cloud computing with domestically produced CPUs, operating systems, and cloud computing software is crucial. This should

integrate new technologies like IoT, big data, AI, and blockchain to provide secure and trustworthy IaaS (Infrastructure as a Service), PaaS (Platform as a Service), and SaaS (Software as a Service) solutions, addressing concerns about safe and reliable cloud usage.

(6) Building a global AI computing center around the development of AI

Computing power has become the basic productivity of AI enterprises, but the high cost of computing power hinders AI innovation and development. To make AI computing power as accessible as water and electricity, it should be established as a public infrastructure resource in Hong Kong, available for government, businesses, and the public to use as needed. Establishing Hong Kong as a global AI computing power center will not only meet the current needs of existing customers but also have the capacity for future development to satisfy the diverse computing power requirements of future customers.

The AI computing center should focus on full-stack domestic production and possess advanced, open capabilities. At the same time, it should strengthen the deployment and application of domestically produced chips, thereby increasing the localization rate of AI computing power supply. This approach would promote the development of an independent and controllable hardware and software computing ecosystem, reducing risks from external environmental changes. It should guide innovation in key AI core technologies, supporting core AI tech companies in fundamental technologies like deep learning frameworks, new large model infrastructures, and ultra-large-scale analog computation. The center should also encourage core large model tech companies to invest and build in Hong Kong's AI computing power center.

(7) Constructing global data services and establishing Hong Kong as a haven for data by relying on data integration

Efforts should be made to transform Hong Kong into an international center for data services. Currently, two-thirds of global data centers are in Europe and America, but Asia-Pacific has become the largest market for new data centers. Hong Kong, with its geographical, economic, and network advantages, has already become a dual core in the Asia-Pacific region for data centers and is the main market for data center leasing services in the area. Moreover, Hong Kong serves not only as an outlet for Chinese enterprises going global but also as the preferred entry point for foreign enterprises entering China. Developing Hong Kong into an international center for data services would accelerate data interconnection between Hong Kong, the Chinese mainland, and overseas countries. This would facilitate the integration of flows of people, goods, information, data, capital, and commerce, strengthening Hong Kong's data trading business.

A public data service platform needs to be established to support the development of the international center for data services. Technologies such as the Internet of Things, cloud computing, big data, blockchain, and artificial intelligence can be leveraged to achieve trusted data sharing and application. The cooperation memorandum signed between Hong Kong's Innovation and Technology Commission and the Cyberspace Administration of China for the Greater Bay Area should be fully utilized. Data sharing within the Greater Bay Area should be gradually explored, while simultaneously strengthening Hong Kong's position as a haven for data. Under the premise of secure data sharing, pilot application innovations in industries such as healthcare and insurance should be accelerated, leading to widespread application and replication.

Efforts are needed to advance data convergence in the Hong Kong SAR to construct a data-centric "city brain." This will achieve centralized integration and comprehensive, intelligent analysis of various urban data types. Mechanisms for data-assisted decision-making should be established and improved, promoting the formation of a decision-making system that "speaks with data, decides with data, manages with data, and innovates with data." Simultaneously, the ability to perceive, predict, and prevent risk factors needs to be enhanced. The construction of Hong Kong's social credit system should be improved, and the integration of government data into the blockchain should be accelerated. Technologies such as blockchain, artificial intelligence, and big data will be leveraged to build a "Trustworthy Hong Kong," ensuring that all government data is traceable and tamper-proof. This will enhance government credibility and improve the ability to serve the public.

A unified intelligent public data platform should be established to achieve data integration, sharing, and utilization. This platform will construct a data-sharing and exchange system, addressing challenges such as data interconnectivity, data-sharing difficulties, and business collaboration issues. The integration and sharing of trade information, supply chain finance, and government information systems will accelerate the development of Hong Kong as a smart city.

(8) Taking Web 3.0 as an opportunity to build a blockchain infrastructure platform

Data is the foundation of the current digital economy, and trusted data circulation is crucial. Hong Kong needs to build a unified blockchain infrastructure platform. On one hand, this platform will support Web 3.0 in ensuring transaction authenticity and legality in the development of stablecoins through blockchain technology. On the other

hand, it will enable trusted data sharing between the government and enterprises in Hong Kong, ensuring data is usable but not visible. This will allow data to be more effectively utilized, better serve public needs, and enhance the overall well-being of the people.

A blockchain technology application model should be established to create a global industrial hub for Web 3.0. Hong Kong currently faces the need for digital transformation of its real economy sectors within the Web 3.0 development framework. It is recommended to construct a multi-technology integration framework centered around blockchain and incorporating technologies such as 5G, AI, and IoT. This will serve as a demonstration of blockchain technology applications in Web 3.0 development in Hong Kong. The focus should be on mature application areas such as government services, healthcare, digital finance, Central Bank Digital Currency (CBDC), media copyright, and smart manufacturing. Projects should be incubated to promote the convergence of blockchain technology applications in Hong Kong, establishing a model for others to follow. Through a public service platform system for industry development and innovation, centered on "Web 3.0 industry cloud as the core carrier, Hong Kong's traditional advantageous industries' innovation as the connecting link, and AI + blockchain foundational technologies as the innovation engine," Hong Kong can drive the transformation and upgrade of its traditional strong industries, including trade while accelerating the cultivation of emerging industries.

3.1.6 Enhancing infrastructure such as submarine cables to elevate Hong Kong's status as a data hub in the Asia-Pacific region

(1) Submarine cables are crucial infrastructure supporting global data exchange

Submarine cables carry approximately 99% of global intercontinental communication traffic, serving as a vital lifeline for global network interconnection. Regions with more submarine cables have a cost advantage in data connectivity, making them preferred locations for big data and high-tech projects.

Hong Kong's geographic position at the center of the Asia-Pacific region has long established it as one of Asia's primary submarine cable and data hubs. It possesses unique advantages as a data transit hub, offering low costs and reduced latency, with round-trip delays to nearby Asian regions within 100 milliseconds. Moreover, under the "One Country, Two Systems" arrangement, the free flow of data is guaranteed, making Hong Kong a strategic gateway for data circulation from the Chinese mainland to the outside world. Over 50% of international data entering and exiting the Chinese mainland passes through Hong Kong.

(2) Digital transformation requires bringing new submarine cables to Hong Kong

According to statistics from the Communications Association of Hong Kong, Hong Kong currently has 11 international submarine cables in use, while Singapore has 24 international submarine cables. With the support of the Singapore government, 14

more international submarine cables will be installed in Singapore within the next three years, while only 5 will be installed in Hong Kong. This demonstrates Singapore's active development in the submarine cable sector and the competition between Singapore and Hong Kong in this field.

As Hong Kong undergoes digital transformation in international finance, trade, and other sectors, data flow volumes are expected to increase exponentially. Many applications require low latency and better global network connectivity, necessitating more external communication capacity. New submarine cables offer over a million times more bandwidth compared to older cables from the 1990s, making them more suitable for supporting new financial, trade, and other application scenarios. If Hong Kong fails to secure new submarine cables, its data transmission competitiveness could significantly decrease as older cables are phased out.

A few years ago, four submarine cables were initially planned to be built in Hong Kong: Pacific Light Cable Network (PLCN), Bay to Bay Express Cable System (BtoBE), Hong Kong-America (HKA), and Hong Kong-Guam (HK-Guam). However, they withdrew their plans to land in Hong Kong, opting for other locations like the Philippines, with connections to countries such as Singapore. Two cables currently under construction, Apricot and Echo, will bypass Hong Kong, transmitting data from Singapore to Japan and the United States. Echo, one of the newest trans-Pacific cable systems, will cross the Java Sea via a new route, directly connecting the U.S. and Singapore—the first fiber optic cable to directly link these two locations. Other international operators are attempting to replicate this model, constructing additional trans-Pacific cables without connecting to Hong Kong.

The insufficient capacity of international submarine cables in Hong Kong has driven up bandwidth and connectivity costs, prompting cloud service and technology companies to take a more conservative approach to deployment and expansion in Hong Kong. For example, some internet content providers have already relocated their network planning teams from Hong Kong to Singapore and are gradually shifting network traffic from Hong Kong to Singapore. Without new international submarine cables connecting to Hong Kong, this will increase the costs and technical challenges for enterprises on the Chinese mainland to connect with international markets. Ultimately, Hong Kong risks losing out on the massive data traffic driven by big data trends.

(3) It is suggested to speed up submarine cable deployment in the South China Sea

International submarine cables connecting to Hong Kong must first pass through the South China Sea region under Chinese jurisdiction. The Chinese government has explicitly stated its welcoming and supportive attitude towards other countries and telecommunications enterprises laying international submarine fiber optic cables in waters under Chinese jurisdiction. It also actively encourages Chinese enterprises to cooperate with foreign enterprises in laying international submarine fiber optic cables. Based on expert opinions from the Communications Association of Hong Kong, this report recommends that the HKSAR Government focus on the core needs of the industry. It suggests working with Hong Kong's industry to develop feasible project implementation plans and jointly seek support from the central government. This approach aims to accelerate the deployment of submarine cables in the South China Sea, encouraging more new international submarine cable projects to connect with

Hong Kong. In the long term, this would enhance Hong Kong's competitiveness as an Asia-Pacific data hub and strengthen its role in facilitating the flow of data between China and the rest of the world.

3.2 Cross-border e-commerce

3.2.1 The overall strategy for developing cross-border e-commerce in Hong Kong

Hong Kong needs to strategically promote the development of cross-border e-commerce as a key initiative to consolidate and enhance its position as an international trade center. Drawing on domestic and international experiences, the development of cross-border e-commerce relies heavily on policy support from the local government. Therefore, for Hong Kong to seize the opportunities of cross-border e-commerce and expand the new trade landscape, the primary issue to address is the role of the government. Given the disruptive impact of cross-border e-commerce on the trade landscape, the HKSAR Government needs to shift its role, place greater emphasis on this sector, and more proactively assume the role of a "macro leader".

Since 2021, the HKSAR Government has proposed in its policy address to encourage public sector staff to take on the role of "advocates" in specific areas, promoting dedicated and specialized responsibilities in manpower allocation. The HKSAR Government has seen success in establishing dedicated and specialized professional positions, such as the Commissioner for Heritage and the Commissioner for the Development of the Guangdong-Hong Kong-Macao Greater Bay Area. These examples highlight the importance of cultivating relevant commissioners. Therefore, the HKSAR Government could also establish dedicated positions for cross-border e-

commerce specialists. These specialists would drive the development of e-commerce while providing the necessary support and guidance to industry professionals.

The Digital Economy Development Committee, chaired by the Financial Secretary, was established in June 2022. It focuses on four major areas: cross-border data flow, digital infrastructure, digital transformation, and talent development. It is recommended to establish a dedicated task force for the e-commerce sector, which is a key industry, to promote relevant funding and tax reform. The task force should actively participate in developing regional e-commerce trade regulations, laying a longer-term value foundation for the development of e-commerce. The government should place strong strategic emphasis and support on fostering the growth of cross-border e-commerce.

3.2.2 Cross-Border E-Commerce Special Fund

The Hong Kong Government may consider providing financial support for SMEs to develop cross-border e-commerce businesses. It is suggested to launch a "Cross-Border E-Commerce Boost Program", which would help local SMEs in Hong Kong upgrade their development strategies, human resources, equipment, and internal management, ensuring their operational models align with the demands of cross-border e-commerce.

During the pandemic, the Hong Kong Government introduced emergency funding under the "Distance Business Programme (D-biz)", aimed at supporting businesses in utilizing technology and innovation to carry out distance business and create new value, new capabilities and new opportunities during the pandemic. With the changes in the pandemic scenario, this programme could transform into a "Cross-Border E-Commerce Boost Program" to assist local import/export trade enterprises in their digital

transformation, integrating e-commerce models into traditional import/export channels. This program could serve as a first step toward exploring the promotion of cross-border e-commerce, with long-term benefits for Hong Kong's overall economic development, provided the government has sufficient capacity for implementation.

Similar programs, such as the "E-Commerce Booster Package" implemented in neighboring regions like Singapore, could serve as a reference. It is suggested to offer grants of up to HK$50,000 to each qualified import/export trader to facilitate the development of cross-border e-commerce. This would encourage the industry to effectively utilize existing cross-border e-commerce platforms, integrating current sales channels into e-commerce platforms to create new value-added segments, explore new operational models, and tap into new customer sources.

To encourage Hong Kong SMEs to seize opportunities in the Chinese mainland's cross-border e-commerce landscape, products offered by these enterprises must be listed on existing cross-border e-commerce platforms to qualify for this funding program. To enhance industry willingness to transform, it is recommended that the grant under this program be distributed on a "first-come, first-served" basis, allowing enterprises that are willing to explore cross-border e-commerce and have initiated relevant transformation practices (such as establishing websites) to apply. With a funding cap of HK$50,000, this program is expected to benefit up to 20,000 local SMEs engaged in import/export activities.

Simultaneously, it is suggested that the Hong Kong Government establish a "Cross-Border E-Commerce Special Development Fund" to support local SMEs in product promotion, assisting in increasing brand and product visibility in the Chinese mainland e-commerce retail market (primarily on large online shopping platforms).

Industry insiders indicate that the promotional costs for operating online stores on Chinese mainland's cross-border e-commerce platforms can account for 20% of annual sales. For brands entering the Chinese mainland for the first time, expenditures for brand promotion and offers may grow to 40% of sales to enhance their awareness, highlighting the importance of brand marketing. Therefore, it is proposed that the Hong Kong Government provide support of up to HK$40,000 to each local SME interested in developing the Chinese mainland's e-commerce market. This move could alleviate pressure on product promotion for SMEs and offer them more opportunities for exploration, reaching up to 20,000 enterprises.

To address the lack of engagement among practitioners and entrepreneurs in cross-border e-commerce, the Hong Kong Government could consider establishing a "Cross-Border E-Commerce Support and Promotion Fund". This initiative could involve multiple rounds of promotional activities aimed at equipping the industry with flexible e-commerce knowledge and up-to-date domestic market trends, encouraging businesses to adopt new operating models and attract more local talent, especially youth, to the industry.

While there is no specific fund for "cross-border e-commerce", the government has previously launched the Dedicated Fund on Branding, Upgrading and Domestic Sales (BUD Fund), which aims to support local enterprises in meeting economic challenges by offering funding for brand development, upgrade transformation, and market expansion. Specific funding areas include the formulation of brand development strategies and plans, brand positioning and image design, market research and brand promotion, product design, technology introduction and management system improvement. Although the BUD Fund application process has undergone upgrades

with the simplified application track "Easy BUD", its coverage remains narrow. Therefore, it is recommended that the government consider expanding the eligibility for the BUD Fund to include SMEs looking to leverage third-party platforms for cross-border e-commerce, enhancing the applicability and relevance of government funding programs for cross-border e-commerce development.

3.2.3 Tax Incentives for Local Import/Export Trade

To encourage more enterprises to engage in R&D activities in Hong Kong, the Chief Executive proposed in the 2017 Policy Address to provide additional tax deductions for expenditures on "qualified R&D activities". Payments made by enterprises for "qualified R&D activities" to "designated local research institutions in Hong Kong", along with the first HK$2 million of the enterprise's "qualified expenses", can receive a tax deduction of 300%. This initiative reflects the government's effort to promote R&D activities among Hong Kong enterprises through tax incentives.

Clearly, the government employs measures such as tax reductions and exemptions to encourage business development, thus it is advisable for the government to actively consider establishing corresponding tax deductions and exemptions for profits earned through cross-border e-commerce by SMEs. The majority of local import and export traders are SMEs, typically consisting of about ten employees. These SMEs often earn relatively modest profits, and under increasing pressures from rising rents and resource costs, their survival spaces are shrinking. The need to transform and upgrade their business models will likely consume a significant amount of human resources and time, making it essential for the government to provide appropriate support to encourage the industry to explore new business models for development.

3.2.4 Challenges and Solutions in Cross-Border Product Certification and Testing

Product standards and certifications are critical issues for Hong Kong businesses entering the Chinese mainland market. For Hong Kong SMEs engaging in cross-border e-commerce to access the Chinese mainland market, compliance with national safety certifications and product testing is mandatory. However, the regulatory frameworks for product certifications and inspections differ between the two regions, leading to diverse safety standards and quality requirements for different product categories in technical specifications, certification tests and other fields. This discrepancy can result in some products facing lengthy customs quarantines or even being detained or returned by customs.

For instance, certain electronic and electrical products are required to meet applicable national standards (GB standards) in the Chinese mainland, achieving specific technical requirements and obtaining 3C certification from a recognized Chinese mainland institution. In contrast, electronic and electrical products sold in Hong Kong do not require prior registration. While suppliers must ensure their products meet the latest safety standards outlined in the *Guidance Notes for the Electrical Products (Safety) Regulation*, this document is not exhaustive and may reference overseas safety standards from standard-setting organizations like the European Committee for Electrotechnical Standardization and the British Standards Institution, which can diverge from Chinese mainland's technical requirements in specific areas.

In the food sector, food products imported to Chinese mainland must comply with national food safety standards and relevant inspection and quarantine requirements. For

some food items requiring regulatory certification, importers must obtain necessary regulatory documents in accordance with relevant regulations before declaration. Whether it is food, food additives, health products, pharmaceuticals, or milk powder that enter the Chinese mainland market, they must undergo inspection and certification in accordance with the *Food Safety Law of the People's Republic of China.*

Based on the above issues, the following specific suggestions for product certification and testing are proposed:

i. The Hong Kong Government should work with the central government to establish mutual recognition of product standards among Guangdong, Hong Kong, and Macao. Using the Greater Bay Area as a pilot, the Hong Kong Government could collaborate to develop unified product certification and quality testing standards in the Greater Bay Area, promoting these standards as high-quality benchmarks recognized in both the Chinese mainland and internationally, thereby facilitating the circulation of Hong Kong products within the Greater Bay Area. Certain products could initially be allowed to use a green channel for trial, enhancing their circulation within the Greater Bay Area. In the long run, this could foster a mutual flow of products between the Chinese mainland and Hong Kong and create a promotional effect for quality products from the Greater Bay Area, preparing for broader international market expansion.

ii. Hong Kong Government should aim to reach an agreement with the Chinese mainland government for specific product categories, enabling Hong Kong-recognized testing agencies to issue compliance certificates directly accepted as meeting Chinese mainland standards. This would strengthen the focus of Hong Kong Government's laboratories on standard formulation and coordination of

standards between the two regions. Taking the safety testing of electronic and digital products as an example, under CEPA, if Hong Kong testing agencies wish to provide certification services for the Chinese mainland, they must first comply with the relevant technical requirements of Hong Kong Innovation and Technology Commission's "Hong Kong Laboratory Accreditation Scheme", and negotiate with and establish entrusting relationships with qualified Chinese mainland certification bodies. Only then can their testing results and reports be recognized, covering all products listed under the 3C certification.

iii. It is suggested that electronic and digital products be prioritized as pilot products in negotiations with the Chinese mainland government to allow Hong Kong-recognized agencies to directly conduct 3C certification, eliminating additional time and costs associated with subsequent certification by Chinese mainland entities. This model could then gradually expand to other product categories, such as food and beverages, and personal care cosmetics. The Hong Kong Government's laboratories should focus on updating and improving existing standards and developing new ones in response to the current challenges faced in testing and certification.

3.2.5 Collaboration with Bonded Warehouses in Chinese Mainland Cities in Greater Bay Area to Set Up "Hong Kong Warehouses"

Warehousing is an indispensable element for the development of cross-border e-commerce. The storage and transportation of goods are heavily dependent on the construction and operation of warehouses. However, Hong Kong SMEs face related

challenges when entering the Chinese mainland market. For instance, the sales of SMEs' products in the Chinese mainland are unstable, and the costs of building warehouses there are relatively high. Consequently, products have no place to be stored in the Chinese mainland and must be shipped from Hong Kong, which increases both transportation costs and delivery time. Therefore, cost is a significant consideration for the Hong Kong businesses when developing cross-border e-commerce. Except for products such as food and cosmetics that have stringent requirements regarding shelf life and temperature, most general products do not have high storage time or temperature requirements. These goods could be stored in existing bonded warehouses in the Chinese mainland, thereby reducing transportation and logistics costs. For Hong Kong businesses venturing into the domestic sales market via cross-border e-commerce, building their own warehouses is not a viable option, especially given the limited and unstable sales volumes of their products.

Thus, it is recommended that the Hong Kong Government collaborate with the Chinese mainland government to establish designated "Hong Kong Warehouses" within existing bonded warehouses in Chinese mainland cities in the Greater Bay Area for storing general Hong Kong goods. This would reduce the costs for SMEs entering the domestic market.

The *Outline of the 14th Five-Year Plan* continues to emphasize support for Hong Kong in solidifying and enhancing its status as an international financial, aviation and trade center. In the long run, enhancing Hong Kong's trade center status and aligning with global trends in cross-border e-commerce is a positive initiative. Although there are certain limitations to the development of cross-border e-commerce in Hong Kong, its advantages remain evident. The Hong Kong Government and industry need to work

together actively to strengthen communication and cooperation with the Chinese mainland, explore development opportunities in related fields, and maintain Hong Kong's competitiveness while creating "new momentum" for the country's economic growth.

3.3 New Offshore Trade Services

3.3.1 How Does Hong Kong Seize the Trends in Offshore Trade Development

In recent years, the international trading landscape has been continuously changing. Tensions in geopolitical situations, adjustments in global manufacturing divisions, and the restructuring of supply chains are all influential factors affecting production layouts, corresponding export models, and Hong Kong's performance in offshore trade. Supply chain management is also in a constant state of flux, with trends such as the differentiation of production and logistics, regionalization of supply chains, and localization of products emerging. These shifts necessitate a strong grasp of supply chain management and require supply chain managers to offer more flexible, comprehensive, and efficient services. While large domestic and international manufacturers have begun to adjust their supply chain setups over the past few years, many small and medium-sized manufacturers have yet to effectively manage their supply chains. Additionally, high-demand economies are implementing stricter ESG requirements and facing trade financing difficulties in high-interest environments, thus posing significant hurdles to enterprises.

Hong Kong possesses ample conditions to capitalize on the opportunities presented by these transformations. Hong Kong offers unique advantages, such as its

solid foundation in trade and various related professional services, an international business environment, a robust legal and financial system, advanced infrastructure, a high-quality talent pool, and a favorable geographical location.

For example, in trade-related financing, Hong Kong has efficient and reliable information and a stable and advanced financial infrastructure, providing businesses with diverse financing options. Over 70% of the world's top 100 banks operate in Hong Kong, including many leading banks in the global trade financing market. Therefore, Hong Kong-based companies can benefit from more efficient and cost-effective trade financing services. Moreover, the above-mentioned CDI initiated by the Hong Kong Monetary Authority, which consolidates business data, involves several banks and data providers. With corporate authorization, participating banks can access relevant data more efficiently, streamlining their loan approval processes. In terms of trade settlement, the Project mBridge has made progress and is expected to launch its first-phase service in 2024. At that time, Hong Kong will become one of the first regions globally to use central bank digital currency (CBDC) for cross-border corporate transactions, significantly enhancing the speed of cross-border payments and reducing associated costs. To effectively manage order risks, the Hong Kong Export Credit Insurance Corporation covers not only goods shipped and re-exported from Hong Kong but also products procured or produced overseas by Hong Kong insureds for direct shipment to buyers locally.

In terms of market development and consulting services, whether for Chinese mainland enterprises going global or foreign companies entering the Chinese mainland market, there is a need to assimilate and reference a wide array of information to make informed decisions and manage business operations and supply chain layouts

appropriately. Hong Kong can play a crucial role in this process. For instance, the Hong Kong Trade Development Council has been implementing various programs to support Chinese mainland enterprises in Hong Kong in "going global", including establishing a presence in BRI countries. For example, the "T-box Programme" provides one-stop consulting services on business operations, production and supply chain solutions, market information and so on, as well as workshops and networking sessions. This programme aims to help Hong Kong businesses enhance their competitiveness in areas such as brand upgrading, digital transformation, production and supply chain optimization, market development, and sustainable development. In the realm of standard certification and enterprise training, professional service organizations in Hong Kong possess extensive knowledge and experience in areas such as multinational supply chains, compliance in overseas markets, labor protection, and environmental sustainability. In terms of standard certification, the Hong Kong Quality Assurance Agency relies on international standards to provide relevant certification, assessment, verification and training services, assisting companies in improving their management practices and competitiveness.

The key to establishing a multinational supply chain management center in Hong Kong lies in how to assist enterprises in strengthening their management of supply chains and value chains. By focusing on more efficient industrial and commercial professional services, Hong Kong can further create greater value for companies engaged in international business.

3.3.2 Concept of Supply Chain Management

The primary concept of a supply chain revolves around a company's core operations, forming a network structure through the management and control of logistics, capital flow, and information flow in the procurement of raw materials, production of intermediate goods, and delivery of final products. It involves various stakeholders, including suppliers, manufacturers, distributors, retailers and consumers. Supply chain management refers to the relevant management of the flow of goods, data and capital associated with a product or service, from raw material procurement to the point of delivery to the consumer.

Services related to supply chain management centers generally fall into four developmental stages:

The first stage is the basic integrated logistics services, providing fundamental logistics functions such as international logistics, freight transshipment, warehousing distribution, import/export customs clearance, and bonded logistics.

The second stage is the addition and involvement of trade flow through settlement, which facilitates logistics.

The third stage is the integration of supply chain finance, achieving a smooth connection between industry and financing through transaction information platforms and the supply chain services provided by these platforms.

The fourth stage is the industrial supply chain platform services (i2S2B), which extend B2B supply chain platform services, enabling all users within the supply chain to communicate through the platform, create new traffic, and achieve "B2B + SCS

(supply chain service) + SCF (supply chain finance)" services. This represents the ultimate goal of establishing a supply chain management center.

3.3.3 Global Experiences in Developing Supply Chain Management Services

Due to its forward-looking concept, supply chain management has garnered widespread attention globally since as early as 2001. In 2017, the General Office of the State Council issued the *Guiding Opinions on Actively Promoting Supply Chain Innovation and Application*, elevating the innovation and application of supply chains to a national strategy for the first time.

As global economic growth gradually slows and international competition escalates, enhancing the total factor productivity of enterprises has become crucial for improving competitiveness. The report of the 20th CPC National Congress emphasized the need to increase total factor productivity and enhance the resilience and security of industrial and supply chains. In December 2021, the State Council released the *14th Five-Year Plan for Digital Economy Development*, which called for promoting the digital transformation of the entire industrial chain to improve total factor productivity. As a new production management model, digital supply chain management can help enterprises optimize supply chains, improve operational efficiency, and effectively reduce costs. With the rapid development of digital technologies such as big data, AI, and blockchain, digital supply chain management has received strong technical support. To boost the development of supply chain digitization, in October 2017, the General Office of the State Council issued the *Guiding Opinions on Actively Promoting Supply Chain Innovation and Application* (the "Opinions" for short), which clearly proposed

to prioritize improving development quality and efficiency and deeply integrating supply chains with the Internet and IoT to advance the digital transformation and upgrading of supply chains and enhance China's global economic competitiveness. In May 2022, the General Office of the State Council released the *14th Five-Year Plan for Modern Logistics Development*, which similarly underscored the need to strengthen the development of digital supply chains and improve the efficiency of supply chain digitization. Such policies not only reflect the importance attached by the state to the digital transformation and upgrading of supply chains but also stimulate enterprises' enthusiasm for innovation and investment in this field. Enterprises are proactively driving the thorough integration of digital technologies with the real economy and leveraging advanced digital supply chain management models to inject new vitality into their production and operation. Such efforts are expected to improve enterprises' total factor productivity and contribute to high-quality economic development.

With the continuous development of globalization and under the guidance of the United Nations Sustainable Development Goals, countries around the world have begun to emphasize the integration of sustainable development elements into supply chains. They have successively released policies and requirements regarding sustainable supply chains and continually promoted improvements in supply chain responsibility. For instance, the European Union has issued directives such as *Directive 94/62 on Packaging and Packaging Waste*, *Waste Electrical and Electronic Equipment (WEEE) Directive*, and *Conflict Minerals Regulation*, which target various stages of the supply chain, including raw material procurement, production, transportation, distribution, and recycling. The United Kingdom elevated sustainable supply chains to a national strategic level with the publication of the *Strengthening UK Manufacturing Supply Chains: An Action Plan for Government and Industry*. Meanwhile, Germany's

policies focus on creating green supply chains in the manufacturing sector that are oriented towards environmental protection and resource conservation, aiming for sustainable development of supply chains. The United States has enacted a series of laws and regulations on green supply chain management, such as the *National Environmental Policy Act*, *Resource Conservation and Recovery Act*, *Poison Prevention Packaging Act*, *Environmental Labeling System*, *Green Procurement Compilatio*n, and *Greening the Government Through Waste Prevention, Recycling, and Federal Acquisition*.

The Chinese government is also actively advocating for green supply chain construction. The State Council and relevant ministries and commissions have formulated normative guiding documents focusing on various aspects of the green supply chain, such as the *Guidelines for Green Procurement by Enterprises* and the *Implementation Guidelines for Green Manufacturing Projects (2016-2020)*. These documents encourage enterprises to adopt sustainable supply chain management practices and enhance their core competitiveness. In response to the national policies on green supply chain management, local governments have formulated implementation plans for green manufacturing systems, such as the *Notice on Rewarding Tianjin Advanced Units for Energy Conservation and Industrial Green Development during the 13th Five-Year Plan Period* and the *Implementation Plan for Creating a Green Manufacturing System in Jiangsu Province*. In some regions, to support the sustainable development of supply chains, certain demonstrative enterprises are granted financial rewards to encourage their efforts.

3.3.4 Policy suggestions on the construction of the supply chain management center in Hong Kong

(1) Enhancing the competitiveness of Hong Kong enterprises through digital supply chain management

First, it is essential to deepen the integration of digital technologies with supply chain systems. Through digital supply chain management, enterprises can optimize the integration of information flow, logistics, and capital flow, reduce costs, speed up market response, and enhance core competitiveness, which are expected to position them favorably in market competition. Therefore, the Government should encourage Hong Kong enterprises to embrace innovation and actively adopt cutting-edge digital technologies such as IoT, blockchain, and big data for deep reforms and optimizations across various stages of the supply chain, including procurement, R&D, production, and transportation. Through process redesign, enterprises can not only make supply chains more intelligent but also improve adaptability to market changes and resilience to risks, laying a solid foundation for their sustainable development.

Second, it is vital to leverage digital supply chain management to promote collaborative innovation. Digital supply chain management facilitates closer cooperation among all parties involved and unlocks innovation potential, providing a solid foundation for collaborative innovation and creating a powerful platform for idea exchange and knowledge sharing. Through digital platforms, intelligent tools, and open cooperation mechanisms, digital supply chain management plays a critical role in stimulating enterprise innovation, breaking down business boundaries, and sharing

knowledge and resources. It can effectively support the production and development of enterprises.

Third, digital collaboration in the supply chain plays a crucial role in harnessing the value of data elements. Through digitization, digital supply chain management enables comprehensive integration between upstream and downstream enterprises, breaks down barriers between various stages of the supply chain, promotes the rapid circulation and sharing of data, significantly reduces the costs of information exchange, and maximizes the value of data elements. Therefore, enterprises should utilize digital collaboration within the supply chain to efficiently allocate resources with digital tools, reduce resource costs, and tap potential business growth opportunities, thus enhancing production efficiency and strengthening competitiveness. Moreover, digital collaboration can foster in-depth cooperation among enterprises along the industrial chain, facilitating the optimization and upgrading of the industrial chain and further boosting the development of Hong Kong's economy.

(2) Further optimizing Hong Kong's logistics management with shipping as a starting point

As a result of the development of economic globalization and advancements in technology, international trade has experienced rapid circulation and growth on a global scale, with shipping playing a crucial and pivotal role in this process. Currently, both global trade and the shipping industry are undergoing significant transformations in economic models, changes in environmental technology, and adjustments to international regulations. In addition to ensuring the stability and smooth operation of upstream and downstream supply chains, relevant parties should also acknowledge that

accessibility is key to maintaining national maritime rights and interests, safeguarding national security, and influencing international standing.

As an international trade and shipping hub, Hong Kong has established a full-fledged service system, boasting world-class scale, operational efficiency, comprehensive service capabilities, and value-creation capacity. It also features high efficiency, strong connectivity, and extensive coverage. In this new era, Hong Kong can give full play to its edges in this regard and further optimize its supply chain logistics management by learning from and cooperating with cities in the Chinese mainland.

i. Considering building a shared terminal for cities in the Greater Bay Area on Guishan Island and coordinating port resources in the Greater Bay Area

It is suggested that Hong Kong and other cities in the Greater Bay Area in the Chinese mainland jointly invest in the construction of a container terminal on Guishan Island, which is under the jurisdiction of Zhuhai and located near Lantau Island, and share related tax revenues. A specific reference can be made to the successful experience of Shanghai and Zhejiang in co-developing Yangshan Port. Similarly, Yangshan Port in the Yangtze River Delta is situated on an island offshore, and it has effectively utilized the experience from the islands of Greater and Lesser Yangshan in Zhejiang to establish a shared container terminal for neighboring cities. Moreover, it is advisable to coordinate port logistics services within the Greater Bay Area, integrating the port, maritime, and logistics resources across the city cluster. On this basis, accelerating the integration of regional standards should be prioritized. The Government should first consider unifying port areas in cities close to Hong Kong, such as examining the potential for unifying the Yantian Port in Shenzhen with the Kwai Chung Port in Hong Kong.

ii. Discussing the establishment of a P&I Club in Hong Kong with the national authorities

In light of recent changes in the international political landscape and the rise of competitive shipping companies in the Chinese mainland, it is advisable to gather such companies to establish a P&I club in Hong Kong. At the same time, shipowners and charterers with Chinese backgrounds from foreign countries and regions such as Singapore, the United States, Canada, Europe, and Africa can be united to create a mutual maritime insurance organization based in the Greater Bay Area with global influence, similar to a Protection and Indemnity (P&I) Club or a quasi-association for co-insurance, such as a war risks pool. The primary objectives of this initiative would include risk diversification and standardization of industry practices. In addition, it also can help Hong Kong and even China to secure a voice in the formulation of international regulations and standards within the industry.

iii. Expanding the maritime reinsurance and maritime legal markets in Hong Kong

To propel the further development of shipping and logistics in Hong Kong, it is worthwhile to explore the feasibility of establishing an Asian reinsurance market in the city. This initiative could lead to the formulation of special management regulations for maritime insurance that differ from those applied to standard property and life insurance. Additionally, Hong Kong should collaborate with the Chinese mainland to create a high-level global maritime legal services center. To achieve this, it is recommended to pilot innovative approaches in maritime law, moving beyond the current joint law firm model. This could involve allowing Hong Kong maritime law firms to establish wholly-owned practices and directly hire lawyers in the Chinese mainland to provide "one-

stop" services relevant to the socialist legal system with Chinese characteristics and the common law system for both Chinese and international clients. This will give full play to Hong Kong's advantages in maritime law to promote growth in the shipping industry.

iv. Establishing the world's largest ship financing and leasing center

Hong Kong should actively engage in discussions with the nation to plan the establishment of the world's largest ship financing and leasing center, giving full play to its advantages and making full use of both domestic and international capital markets. Relevant policies should be developed to stimulate the ship financing and leasing industry in the country (including Hong Kong). Building on the foundation of the ship leasing business, innovations in cross-border financial products should be encouraged. Utilizing mechanisms such as QDLP (Qualified Domestic Limited Partner) and QFLP (Qualified Foreign Limited Partner) can facilitate the cross-border flow of funds for ship financing or leasing funds. While optimizing logistics, it is essential to attract more professionals in supply chain management and related fields. To contribute to the movement of talent between Hong Kong and the Chinese mainland, priority visa approvals should be granted to relevant individuals seeking to work in Hong Kong.

(3) Integrating sustainability elements into supply chain management

First, the Government can provide businesses with sustainability assessments of their supply chain management practices. For instance, assessments can be based on regulatory requirements, Chinese and international evaluation norms and standards for sustainable supply chains, and advanced experience in sustainable supply chain management at home and abroad. This assessment would help Hong Kong enterprises clarify their current supply chain status, identify weaknesses, and define improvement directions, thereby laying a foundation for enhancing the level of sustainable

management within their supply chains. Second, it is essential to establish a sustainable supply chain management system. Starting with the analysis of ESG risks in the supply chain, focusing on graded control of suppliers' ESG risks, and developing a sustainable supply chain indicator system will help Hong Kong enterprises create a firewall for controlling ESG risks within their supply chains. Furthermore, the accountability mechanism establishment and process optimization can facilitate sustainable supply chain management. The Government can encourage and even assist enterprises in conducting ESG audits on cooperative suppliers, to determine whether the suppliers meet the ESG requirements set by the enterprises. Third, it is important to engage in capacity building for supply chain sustainability. The Government can develop tools for sustainable supply chain management, provide training and networking opportunities for suppliers, and invite relevant professionals to share advanced concepts, systems, and management practices related to sustainable management across the value chain. Such initiatives are expected to help Hong Kong enterprises further enhance their capabilities in sustainable supply chain management.

(4) Relying on the Guangdong-Hong Kong-Macao Greater Bay Area to improve Hong Kong's supply chain management capability

First, by leveraging the competitive integrated supply chain of the Guangdong-Hong Kong-Macau Greater Bay Area, efforts should be made to shorten and simplify the supply chain, avoiding excessive complexity. While maintaining vertical control over the supply chain, it is also critical to create an open-scale combination.

Second, raising the level of intellectualization and closely tying it to trade and cross-border procedures are necessary. For example, the Hong Kong Customs and Excise Department is establishing Smart Customs and implementing the Single E-lock

Scheme and a pilot scheme of the Cargo Big Data System, so as to further improve the competitiveness and reliance of the supply chain in the Greater Bay Area.

Third, in-depth cooperation with local supply chain enterprises in foreign countries and regions should be carried out to strive for coverage of key markets in ASEAN and other RCEP countries. By making use of its extensive network, Hong Kong can help the Chinese mainland expand its economic and trade development space. Hong Kong's unique status as a separate customs territory within the national system enables it to sign international economic and trade agreements under the name "Hong Kong, China". In the future, there will be numerous opportunities for Hong Kong to strengthen bilateral or multilateral regional economic cooperation with East Asian economies and countries along the Belt and Road. Since the implementation of the *Regional Comprehensive Economic Partnership (RCEP) Agreement* in January 2022, it has provided enterprises in the Chinese mainland with a new pathway to "go global". Through Hong Kong's trade services platform, businesses can utilize its commercial consulting, finance, and entrepot trade services to explore overseas markets.

Fourth, similar to the China Plus One strategy, opportunities for Greater Bay Area Plus One and Pearl River Delta Plus One strategies should be increased. This could include offering special tax and personnel mobility arrangements to dual-registered enterprises in Hong Kong and Shenzhen, allowing them to fully leverage their respective "comparative environments" and foster complementary strengths along the supply chain. As a result, more businesses can expand across borders.

Annex: Principal Statistics for All Establishments in Import/Export Trade

		Number of establishments		Number of employed persons		Sales and other receipts (1)		Compensation of employees		Operating expenses		Cost of goods sold		Gross surplus		The industry adds value	
		Number	Year-on-year % change	Number	Year-on-year % change	Million HKD$	Year-on-year % change	Million HKD$	Year-on-year % change	Million HKD$	Year-on-year % change	Million HKD$	Year-on-year % change	Million HKD$	Year-on-year % change	Million HKD$	Year-on-year % change
Import and export trade	2020	74178.00	-0.6	397279	-8.2	3789284	-4.3	154244	-5.5	252387	-7.1	3079361	-4.1	303292	-3.6	423945	-6
	2021	74471.00	0.4	394210	-0.8	4632086	22.2	159705	3.5	292002	15.7	3809071	23.7	371308	22.4	490134	15.6
	2022	76808.00	3.1	374229	-5.1	4352844	-6	158559	-0.7	299339	2.5	3494099	-8.3	400846	8	468428	-4.4

Note:

1 Including the amount of subsidy related to anti-epidemic measures.

Source: Census and Statistics Department

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