

Box 3.1

Advancement of port facilities in the Pearl River Delta region : opportunities and challenges for Hong Kong

There is often a misguided view that the rapid development of port facilities in the Pearl River Delta region (PRD) impedes competitiveness of Hong Kong, largely based on the observation that some port cargo movements are diverted from Hong Kong to other ports in the region. Yet from a wider perspective, more efficient port facilities in PRD are indeed beneficial to the Hong Kong economy on many aspects. Instead of confining the focus to competition and whether Hong Kong is poised to “lose out”, attention should be broadened to the complementarity that can be built under the evolving structure of comparative advantages within the whole region of South China, and how Hong Kong can “move on” in response.

A direct way by which Hong Kong benefits is through the impetus to offshore trade, an increasingly popular trading mode around the world spurred by globalisation and advancement in supply chain management. Availability of efficient port facilities in PRD enables Hong Kong traders and manufacturers to enjoy greater flexibility in arranging cargo freight offshore for time and cost savings. Meanwhile, their operation bases in Hong Kong can focus on higher value-added activities such as merchanting, marketing, and logistics management. This restructuring process has contributed to a robust performance of the trading and logistics sector in Hong Kong over the past several years.

	<u>2000</u>	<u>2004</u>
Share of trading and logistics sector in GDP (%)	23.8	27.4*
Share of merchanting and other trade-related services in exports of services (%)	31.0	34.7
Value of goods involved in offshore trade ⁺ (\$Bn)	826	1,181 [#]

Notes : (*) Preliminary estimate.

(+) Including here merchanting service only. Merchantising for offshore transaction is not covered as statistics before 2002 are not available.

(#) 2003 figure.

From another perspective, port is part of a wider cluster of activities that combine to sustain the prosperity of South China. More efficient ports and lower shipping costs in PRD enhance the global competitiveness of the whole region. To the extent that the region benefits, Hong Kong stands to share the fruit in many different ways, including more business opportunities with higher return in PRD, greater service demand from the region, and increased investment inflows across the boundary, etc. It is fundamentally not a zero-sum game by which other ports' gain automatically implies Hong Kong's loss.

Hong Kong's challenge is to keep pace with the emerging business opportunities in the region, strengthen integration with PRD, and maintain its position as the leading trading and logistics hub. In this connection, the Government has initiated various measures to foster the integral development of trading and logistics services. As far as the port sector is concerned, a package of initiatives is recommended in the Study on Hong Kong Port – Master Plan 2020 to enhance Hong Kong's port competitiveness. The Government has been working closely with the industry to take forward the recommendations. The progress of the initiatives is summarised below :

Box 3.1 (cont'd)

- (i) *Trucking cost* - Following the discussion with the Guangdong authorities, the “4-up-4-down” rule and “1-truck-1-driver” rule have been relaxed, and the validity period of licenses for operating cross-boundary trucking business has been increased from three to six years⁽²⁾. The Guangdong authorities have also agreed to extend customs operating hours progressively according to the cargo volume and practical needs of different regions.
- (ii) *Port fees and charges* - The Government will streamline the port procedures, reduce port fees and charges, and increase the mid-stream cargo handling capacity through establishing more service anchorages, with a view to attracting more river trade cargoes and ocean-going vessels to Hong Kong. These measures will be implemented in early 2006 upon completion of the necessary legislative procedures.
- (iii) *Terminal handling charge (THC)* – The Government will continue to facilitate dialogue among relevant parties with the aim to enhancing the transparency of THC and its determining mechanism.
- (iv) *Port productivity* – The Government is providing planning support to container port operators and assisting them in implementing changes to land and transport infrastructure. Suitable adjacent port back-up land will be made available to meet port operational needs. The first batch of land is expected to be rolled out by end-2005.
- (v) *Improvement to transport infrastructure* – To facilitate flow of goods across the boundary, a new bridge connecting Lok Ma Chau/Huanggang dedicated for goods vehicles has been commissioned in January 2005, and the Hong Kong-Shenzhen Western Corridor will be opened in mid-2006. In addition, the Stonecutters Bridge connecting Container Terminal 9 with other terminals in Kwai Chung will be completed by 2008.

Apart from the port, the airport is becoming increasingly important in the logistics industry for handling a rising proportion of high-value and time-sensitive items in cargo movement. To a certain extent, this signifies that Hong Kong is moving up the value chain. In recent years, the Airport Authority has been actively seeking out strategic partnerships with the individual Mainland airports, with a view to strengthening development and cooperation in logistics sectors of both sides.

On overall infrastructure planning, the Government will conduct an Ecology Study on northwestern Lantau to assess its environmental suitability for the development of Container Terminal 10, and work out the optimal timing for construction of the terminal based on the updated Port Cargo Forecasts study. Both studies are scheduled to commence before the end of 2005. Regarding the proposed Lantau Logistics Park, a detailed feasibility study is being conducted for target completion in the first half of 2006. Furthermore, the governments of Hong Kong, Guangdong and Macao are actively pursuing advance work on the Hong Kong-Zhuhai-Macao Bridge linking the west side of PRD.

To strengthen Hong Kong as the prime logistics information conduit, the Government will facilitate the launch of the Digital Trade Transportation Network in December 2005. The Network will provide an open, neutral and secure e-platform to facilitate information flow along the supply chain in an efficient, reliable and affordable manner.