

Box 4.1

Value added logistics

Logistics involves a broad spectrum of activities that mainly covers planning, implementation and control of flows of goods, services and information from the point of origin to the point of consumption. Conventionally, it features most significantly in transportation and cargo forwarding activities. Yet the landscape of the industry has gradually evolved towards greater emphasis on high value added logistics (VAL), essentially an integrative profile that incorporates processes designed to efficiently support and facilitate different elements in the supply chain. This tendency is particularly apparent for more mature logistics hubs like Hong Kong and Singapore where competitive edge has become more by service breadth and depth.

The emergence of VAL is closely related to the growing importance of supply chain management under globalisation. Global market expansion and liberalisation have extended the supply chain to cover more and more regions, as manifested by increased international procurement and marketing activities as well as offshore trade. These developments require more effective supply chain management that has to be built upon an integrative set of specialised logistics services.

Examples of specialised services in value added logistics

- Product labelling and packaging
- Light assembling between pickup and delivery
- Transportation management
- Inventory management
- Customs clearance
- Shipment consolidation
- Cargo tracking and tracing
- Supply chain consultancy

Globalisation has also led to intensified competition in the international market that boosts the demand for VAL to cope with the challenge. By enabling an effective supply chain, VAL can lower the transportation and warehousing costs substantially. Moreover, it can uplift the efficiency and flexibility in delivering different bundles of goods to different destinations with unique requirements in terms of quantity, quality and variety. Furthermore, it can help to ensure timeliness in goods delivery and replenishment that have turned more time-critical as the product cycles shorten generally.

VAL should not have prospered as much without technological support. Application of information technology, in particular, has enabled a rapid advancement in the sophistication of logistics services and their effective integration with each other. For example, the distinct improvement in information flows enabled by information technology helps to modernise the inventory management practice and facilitate its convergence with cargo tracing and forwarding activities.

Box 4.1 (cont'd)

A related development worth of note is that the sophistication embedded in VAL has bolstered the presence of independent specialised service providers. Many client enterprises, especially those in small to medium size, now opt to outsource part or entirety of their logistics activities to third-party logistics (3PL) companies. The moves are commonly triggered by limitation in internal resources or inclination to focus more on the core part of their businesses. Many of them are also attracted by the value-for-money services by the 3PL companies that excel in cost control and quality assurance through specialisation.

The economic contribution of VAL in Hong Kong is difficult to measure as its ambit cuts across different industries. Yet there is a market consensus that its development has helped our integral sector of trading and logistics to cope with keener competition in the region in recent years, and hence sustain its growth. In particular, VAL fosters the development of offshore trade as a rising source of income in this sector. Latest indications in 2005 showed that the direct contribution of the trading and logistics sector to GDP rose further to 28.6%. The value of goods involved in offshore trade managed or owned by Hong Kong companies was roughly equal to the value of our re-export trade.

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Trading and logistics sector				
Direct value added (\$Bn)	308.3	316.9	346.9	384.9
Contribution to GDP (%)	25.0	26.3	27.6	28.6
Offshore trade				
Value of goods involved (\$Bn)	1,458.2	1,666.6	1,835.8	2,087.1
Ratio to re-export in value (%)	102.0	102.8	97.0	98.7

Looking ahead, the Mainland's economic development is expected to present both opportunities and challenges for our logistics sector generally and further development of VAL in particular. On the one hand, the Mainland's robust external trade should provide vast market potentials for specialised logistics services. It is also optimistic that more opportunities would be available for the Hong Kong 3PL companies to develop VAL businesses in the Mainland as its domestic market opens up further. On the other hand, there would be keener competition from logistics service providers of other origins. Competitors also include the indigenous logistics companies in the Mainland that have chased up quickly in service standard through application of technologies and accumulation of market experience.

In order to reap the opportunities and meet the challenges ahead, the logistics industry in Hong Kong must, amongst all, sharpen its competitive edge in VAL. In addition to freight handling efficiency and capacity, continued progress in information connectivity is important. In this regard, the Government has been working closely with the industry towards harnessing the use of information technology in logistics activities. Recently, the Focus Group on Maritime, Logistics and Infrastructures under the Economic Summit on "China's 11th Five-Year Plan and the Development of Hong Kong" has recommended an action agenda to promote the application of information technology in the logistics industry. It specifically calls for joint efforts between the Government and the industry to promote the implementation of the Digital Trade and Transport Network System, run a pilot project on an On-Board Trucker Information System, and strengthen the training for logistics practitioners in e-logistics techniques, etc.