Future of Hong Kong's Air Freight

Case 4: Do you see a bright future for Hong Kong's air freight? What are the challenges ahead?

The University of Hong Kong

Chow Chi Shing, Shing
Leung Yuen Lam, Linda
Li Fengting, Tina
Ng Cheuk Hei, Tony
Wong, Stephanie
Background
Hong Kong Position as Logistics Hub

- Ranked 1st in airport cargo throughput in 2014
- HKATL: 8.7% growth in goods throughput

<table>
<thead>
<tr>
<th>Rank</th>
<th>Airport</th>
<th>Total Cargo (Tonnes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Hong Kong (HKG)</td>
<td>4,066,738</td>
</tr>
<tr>
<td>2</td>
<td>Memphis TN (MEM)</td>
<td>4,015,997</td>
</tr>
<tr>
<td>3</td>
<td>Shanghai (PVG)</td>
<td>2,938,157</td>
</tr>
<tr>
<td>4</td>
<td>Anchorage AK (ANC)</td>
<td>2,463,696</td>
</tr>
<tr>
<td>5</td>
<td>Incheon (ICN)</td>
<td>2,456,724</td>
</tr>
<tr>
<td>6</td>
<td>Dubai (DXB)</td>
<td>2,279,624</td>
</tr>
<tr>
<td>7</td>
<td>Louisville KY (SDF)</td>
<td>2,168,365</td>
</tr>
<tr>
<td>8</td>
<td>Paris (CDG)</td>
<td>2,150,950</td>
</tr>
<tr>
<td>9</td>
<td>Frankfurt (FRA)</td>
<td>2,066,300</td>
</tr>
<tr>
<td>10</td>
<td>Tokyo (NRT)</td>
<td>2,006,173</td>
</tr>
<tr>
<td>11</td>
<td>Miami FL (MIA)</td>
<td>1,929,889</td>
</tr>
<tr>
<td>12</td>
<td>Singapore (SIN)</td>
<td>1,841,858</td>
</tr>
</tbody>
</table>
Hong Kong Position as Logistics Hub

- Continuous growth in Hong Kong’s trade
- Around 3.5% annually
- Drives growth in air freight industry
Analysis
1. Strengths

Reputation

- 1st in world airport efficiency ranking in 2013
Strengths

• Logistics Performance index
  • Measure efficiency and quality of logistics service
  • Ranked 3rd in Asia
Strengths

2. China’s trade barriers to countries

• China’s protectionism policy
• Example: US auto and steel products
• Foreign goods re-export in Hong Kong
• By-pass China’s trade barriers
Strengths

3. Hong Kong tax and legal system

- No import tax for most goods
- Trusted legal system and free economy
- Favourable for doing business
Strengths

4. Geographic location

- Short distance form major international and regional hubs

**Figure 5: Flight hours between regional hubs**

<table>
<thead>
<tr>
<th></th>
<th>Hong Kong</th>
<th>Shanghai</th>
<th>Guangzhou</th>
<th>Singapore</th>
<th>Seoul</th>
<th>Taipei</th>
<th>Bangkok</th>
<th>Tokyo</th>
<th>Osaka</th>
<th>Dubai</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong</td>
<td>X</td>
<td>2h20m</td>
<td>45m</td>
<td>3h45m</td>
<td>3h20m</td>
<td>1h40m</td>
<td>2h40m</td>
<td>4h05m</td>
<td>3h45m</td>
<td>7h50m</td>
</tr>
<tr>
<td>Shanghai</td>
<td>2h20m</td>
<td>X</td>
<td>2h</td>
<td>5h15m</td>
<td>1h45m</td>
<td>X</td>
<td>5h30m</td>
<td>2h50m</td>
<td>3h20m</td>
<td>X</td>
</tr>
<tr>
<td>Guangzhou</td>
<td>45m</td>
<td>2h</td>
<td>X</td>
<td>3h55m</td>
<td>3h10m</td>
<td>X</td>
<td>3h</td>
<td>4h20m</td>
<td>3h20m</td>
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<tr>
<td>Singapore</td>
<td>3h45m</td>
<td>5h15m</td>
<td>3h55m</td>
<td>X</td>
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<td>6h30m</td>
<td>2h25m</td>
<td>8h10m</td>
<td>7h30m</td>
<td>9h15m</td>
</tr>
<tr>
<td>Seoul</td>
<td>3h20m</td>
<td>1h45m</td>
<td>3h10m</td>
<td>7h20m</td>
<td>X</td>
<td>2h30m</td>
<td>6h20m</td>
<td>7h55m</td>
<td>1h40m</td>
<td>12h15m</td>
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<tr>
<td>Taipei</td>
<td>1h40m</td>
<td>X</td>
<td>6h30m</td>
<td>2h30m</td>
<td>X</td>
<td>4h10m</td>
<td>3h15m</td>
<td>7h05m</td>
<td>9h50m</td>
<td>X</td>
</tr>
<tr>
<td>Bangkok</td>
<td>2h40m</td>
<td>4h20m</td>
<td>3h</td>
<td>2h25m</td>
<td>6h20m</td>
<td>4h10m</td>
<td>X</td>
<td>6h10m</td>
<td>6h30m</td>
<td>6h50m</td>
</tr>
<tr>
<td>Tokyo</td>
<td>4h05m</td>
<td>2h50m</td>
<td>4h20m</td>
<td>8h10m</td>
<td>7h55m</td>
<td>3h15m</td>
<td>6h10m</td>
<td>X</td>
<td>1h05m</td>
<td>12h45m</td>
</tr>
<tr>
<td>Osaka</td>
<td>3h45m</td>
<td>2h05m</td>
<td>3h20m</td>
<td>7h30m</td>
<td>1h40m</td>
<td>2h35m</td>
<td>6h30m</td>
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<td>X</td>
<td>12h</td>
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<td>Dubai</td>
<td>7h50m</td>
<td>X</td>
<td>7h55m</td>
<td>9h15m</td>
<td>12h15m</td>
<td>9h50m</td>
<td>6h50m</td>
<td>12h45m</td>
<td>12h</td>
<td>X</td>
</tr>
</tbody>
</table>

**Total:** 46h10m 40h15m 50h15m 46h15m 43h35m 50h35m 46h13m 90h

Source: Published flight schedules of respective cities, summer 2006
(Note: In cases where no direct flights are available between hubs, the Hong Kong time is used to avoid distortion of comparison.)
Weakness

1. Expensive air freight rate
   • Higher rate in Hong Kong due to higher operating cost
   • Such as higher rent and wage
   • e.g. Rate from Hong Kong to Europe 4X Guangzhou to Europe
Weakness

2. Re-export inconvenience

• Go through custom from Hong Kong to China or vice versa
• More convenient for airports in China
Weakness

3. Airport service saturation and expansion difficulties

• Current capacity: 70 flights/hour in 2015
• Forecast saturate in 2017
• Limit growth of the air freight sector
Challenges
Intensified Competition

Rising APAC Competitors
- China: Guang Zhou, Shang Hai, Beijing
- Singapore: Changi
- Japan: Tokyo
- Korea: Seoul

- Improved facilities
- Increasing capabilities
- Enhanced regulation and management

Background Analysis Challenges and Opportunities Conclusion
Intensified Competition

Fast development of PRC logistics hubs
- Strong investment supported by government
- Opening market
- More transparent system
- Large capacity

Analysis
Declined Investment in PRC Manufacturing

- Main Business:
  - export
  - re-export
- Main supplier PRC

### Percentage Share of Air Cargo Value

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
<th>2014*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total exports</td>
<td>33.6%</td>
<td>35.2%</td>
<td>36.2%</td>
</tr>
<tr>
<td>Domestic exports</td>
<td>27.7%</td>
<td>27.4%</td>
<td>28.3%</td>
</tr>
<tr>
<td>Re-exports</td>
<td>33.7%</td>
<td>35.4%</td>
<td>36.4%</td>
</tr>
<tr>
<td>Imports</td>
<td>38.6%</td>
<td>39.4%</td>
<td>41.2%</td>
</tr>
</tbody>
</table>

*Source: Hong Kong External Merchandise Trade, Census and Statistics Department

*January-October

### Hong Kong's Imports by Main Supplier, 2013

- Others: 21.1%
- Malaysia: 2.2%
- Korea: 3.9%
- USA: 5.4%
- Singapore: 6.1%
- Taiwan: 6.4%
- Japan: 7.1%

### Hong Kong's Re-exports by Main Origin, 2013

- Others: 11.7%
- The Mainland of China: 64.8%
- Others: 6.4%
- USA: 3.4%
- Japan: 5.8%
- Taiwan: 7.4%
- Korea: 6.0%
- Malaysia: 2.9%
- India: 2.6%
- Singapore: 3.4%
Declined Investment in PRC Manufacturing

- Declined Manufacturing Investment
- Declined trade & logistics through HK

<table>
<thead>
<tr>
<th>Year</th>
<th>Domestic Exports</th>
<th>Re-exports</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Value</td>
<td>Annual</td>
</tr>
<tr>
<td></td>
<td>HKS Million</td>
<td>change</td>
</tr>
<tr>
<td>2004</td>
<td>125,982</td>
<td>3.5%</td>
</tr>
<tr>
<td>2005</td>
<td>136,030</td>
<td>8.0%</td>
</tr>
<tr>
<td>2006</td>
<td>134,527</td>
<td>-1.1%</td>
</tr>
<tr>
<td>2007</td>
<td>109,122</td>
<td>-18.9%</td>
</tr>
<tr>
<td>2008</td>
<td>90,757</td>
<td>-16.8%</td>
</tr>
<tr>
<td>2009</td>
<td>57,742</td>
<td>-36.4%</td>
</tr>
<tr>
<td>2010</td>
<td>69,512</td>
<td>20.4%</td>
</tr>
<tr>
<td>2011</td>
<td>65,662</td>
<td>-5.5%</td>
</tr>
<tr>
<td>2012</td>
<td>58,830</td>
<td>-10.4%</td>
</tr>
<tr>
<td>2013</td>
<td>54,364</td>
<td>-7.6%</td>
</tr>
</tbody>
</table>
Removed Barriers between PRC & TW

Previously

- PRC & TW: No direct trade due to political issue
- Transshipment through HK -> Large proportion of business

Now & Future

- Barriers in between removed
  - Weekly flights: 370 -> 616
  - PRC(41) & TW(9) airports opened
- Lost proportion of transhipment business

Challenges and Opportunities
Opportunities
Opportunity
Three Runway System

Solve the Saturation Problem of the Existing Two Runways
Opportunity Inspection

- Good Reputation
- Quality Audit Provider
- Service Provide:
  - Pick Up
  - Inspection
  - Customer Declaration
Opportunity
Huge Increase in Demand of Cargo Industry

The Asia/Pacific freighter fleet will more than triple

At 6.4% p.a. growth Asia will require in 2023 more than three times more all-cargo aircraft than now
Opportunity
Airbridges Extention
Opportunity
Airline Alliance

Example:
- Hangzhou
- Date: 2005
- Goal:
  - enhance flow of people and goods
  - enhance trade cooperation and exchange
  - develop economy
Conclusion
## Conclusion

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>Airport expansion</td>
<td>China manufacturing decline</td>
</tr>
<tr>
<td>Good reputation in inspection</td>
<td>Competition between Nearby logistics hub</td>
</tr>
<tr>
<td>Airport strategic alliances</td>
<td>Barriers between PRC and Taiwan removed</td>
</tr>
</tbody>
</table>