

Logistics – Part II

The Development of PRD & the Hong Kong Logistics

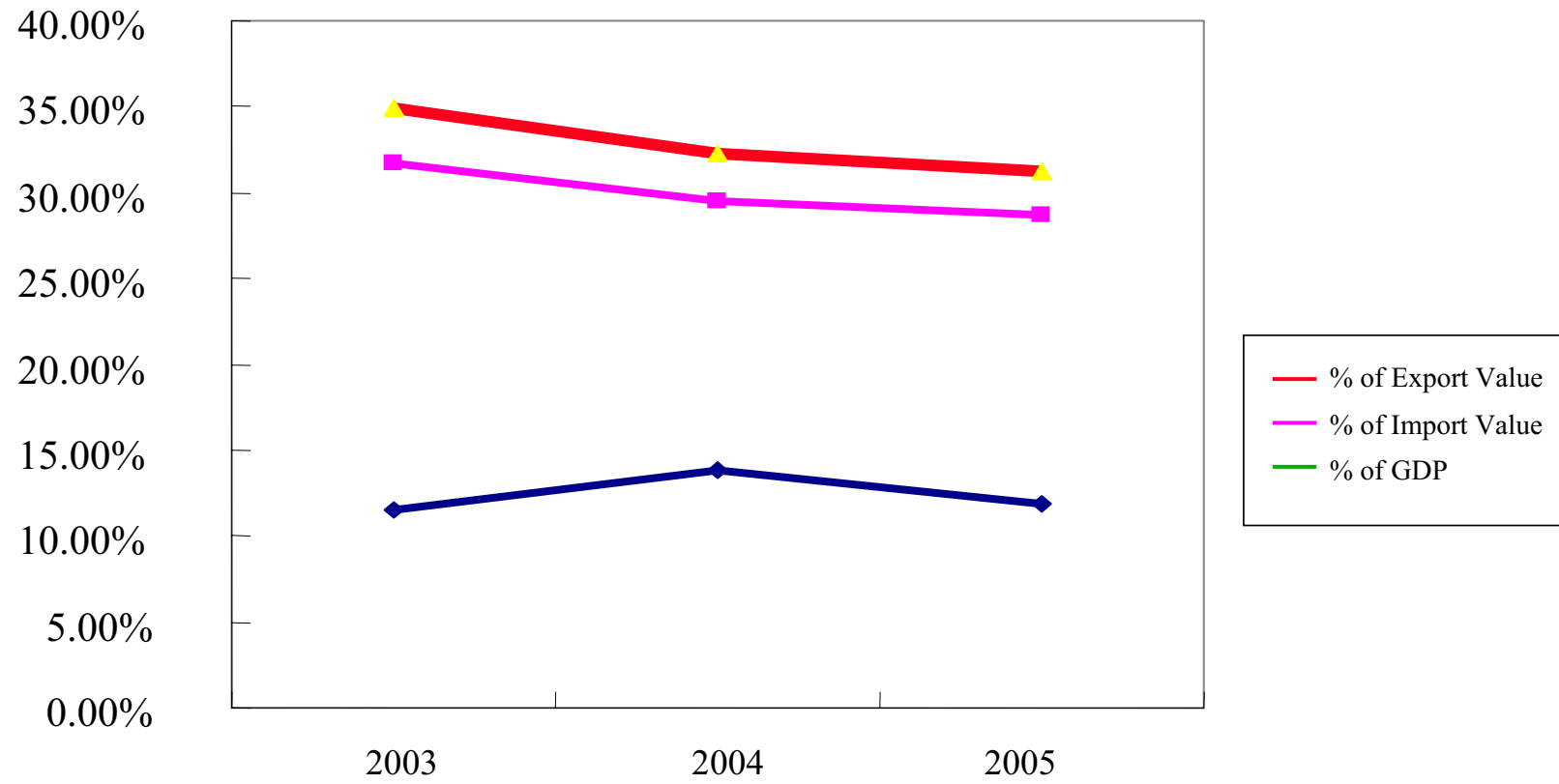
Waiman Cheung

Director

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The Chinese University of Hong Kong

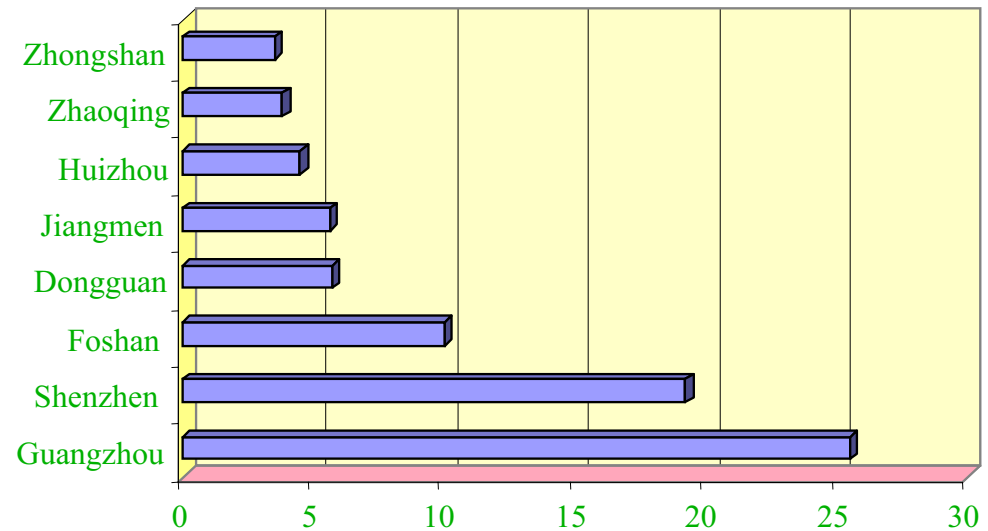
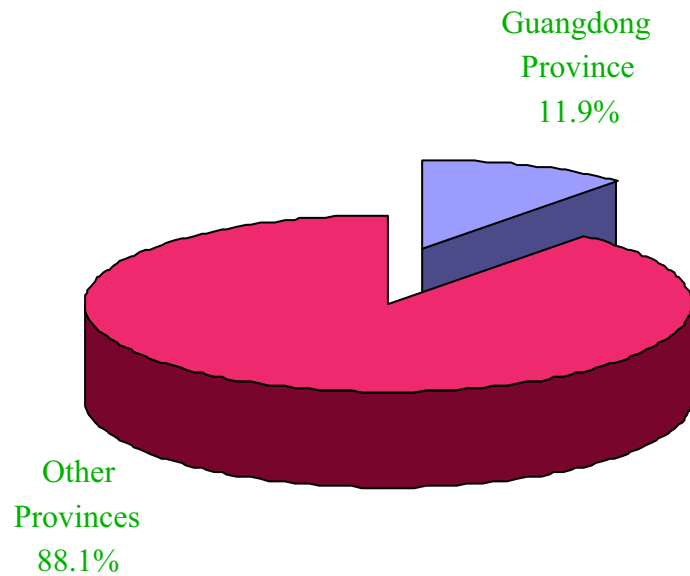
Importance of Guangdong Economy to China



Note: The GDP is calculated at current prices

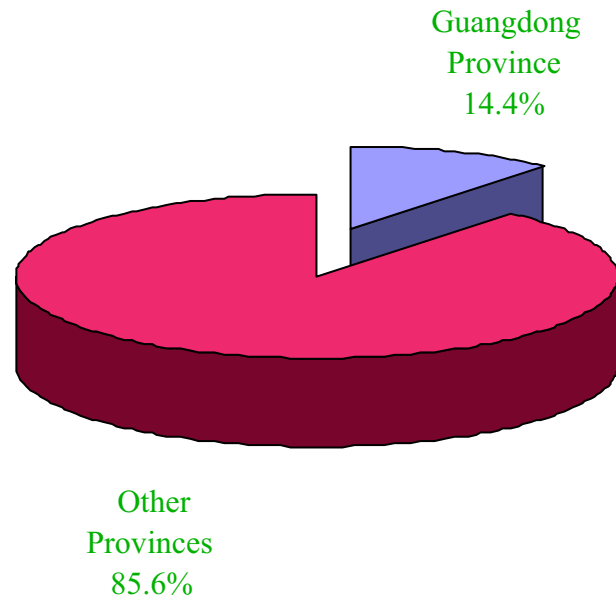
Source: China Statistical Yearbook 2003 and Guangdong Statistical Yearbook 2003

Gross Domestic Product of China & Guangdong - 2004



Note: The statistics is calculated at current prices
Source: China Statistical Yearbook 2005, Guangdong Statistical Yearbook 2005

Gross Industrial Output Value of China & Guangdong - 2004



Proportion of Gross Industrial Output Value in Guangdong

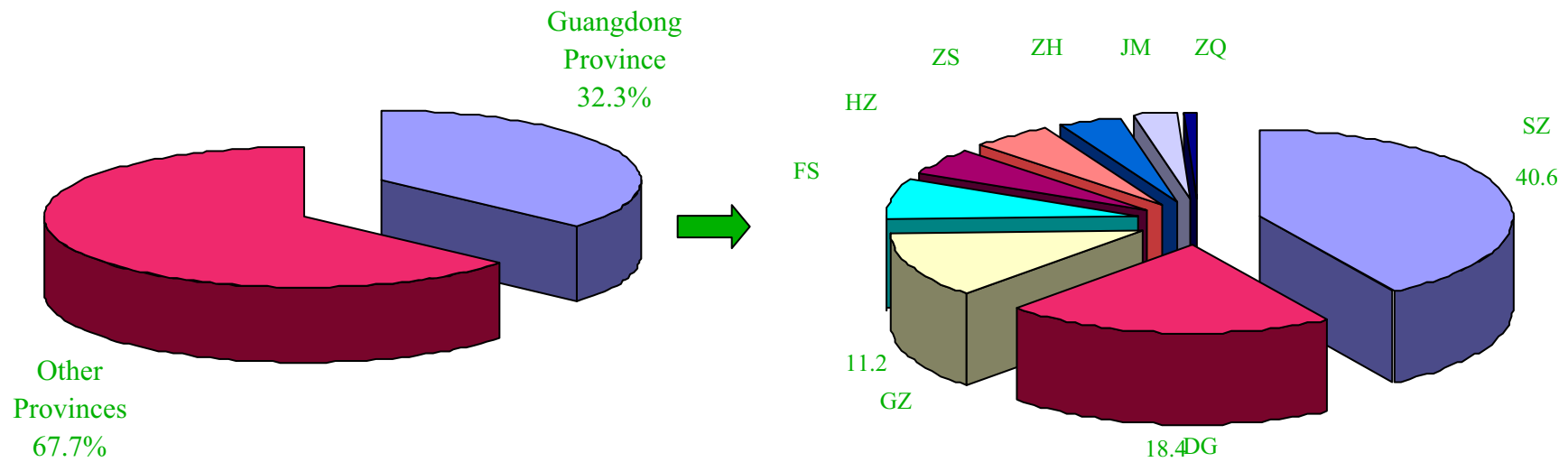
Shenzhen	24.3%
Guangzhou	21.5%
Foshan	12.3%
Dongguan	11.4%
Jiangmen	4.95%
Zhongshan	7.5%
Huizhou	5.8%
Zhuhai	4.7%

Note 1: The statistical covers all state-owned enterprises and non-state-owned enterprises with annual sales above 5 million yuan.

Note 2: The statistics is calculated at real prices

Source: China Statistical Yearbook 2005, Guangdong Statistical Yearbook 2005

Total Export Value of China & Guangdong - 2004



Source: China Statistical Yearbook 2003, Guangdong Statistical Yearbook 2005

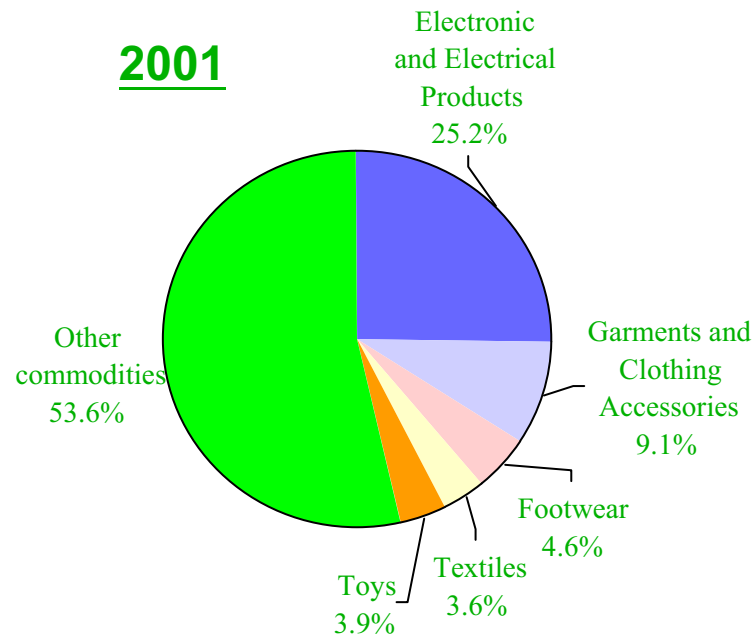
Top 5 Commodities in Export Values – Guangdong Province

	<u>2001</u> (US\$ 100 m)	<u>2002</u> (US\$ 100 m)	<u>2003</u> (US\$ 100 m)	<u>2004</u> (US\$ 100 m)
Electronic and Electrical Products*	240.12	308.40	481.74	664.64
Garments and Clothing Accessories	86.92	100.61	116.72	126.92
Footwear	43.42	46.38	51.82	61.78
Textiles	34.33	42.12	48.34	51.65
Toys	36.88	39.55	83.6	89.8

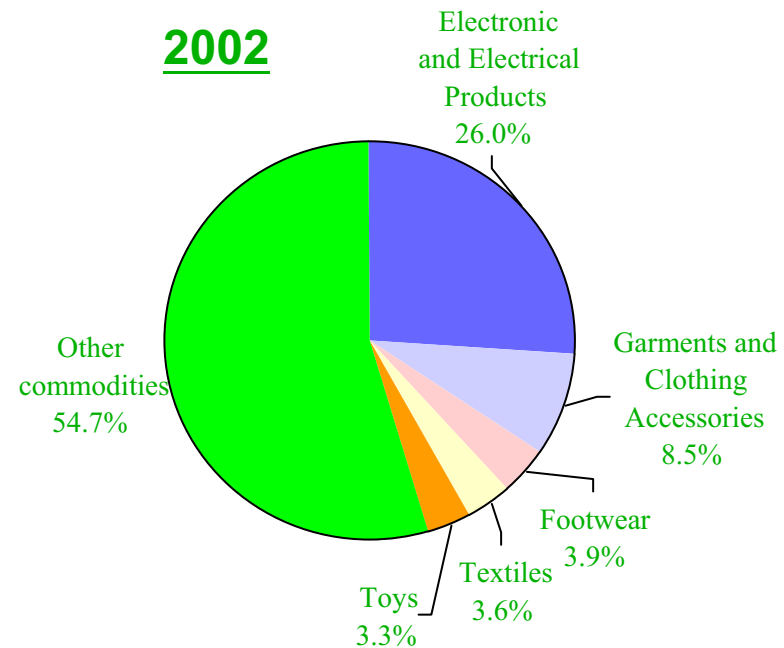
* Electronic and electrical products includes electric machinery, electric equipment, TV sets and sound appliances

Source: Guangdong Statistical Yearbook 2005

Proportion of Commodities Export Value in Guangdong



Total export value: 95.42 billion US dollars

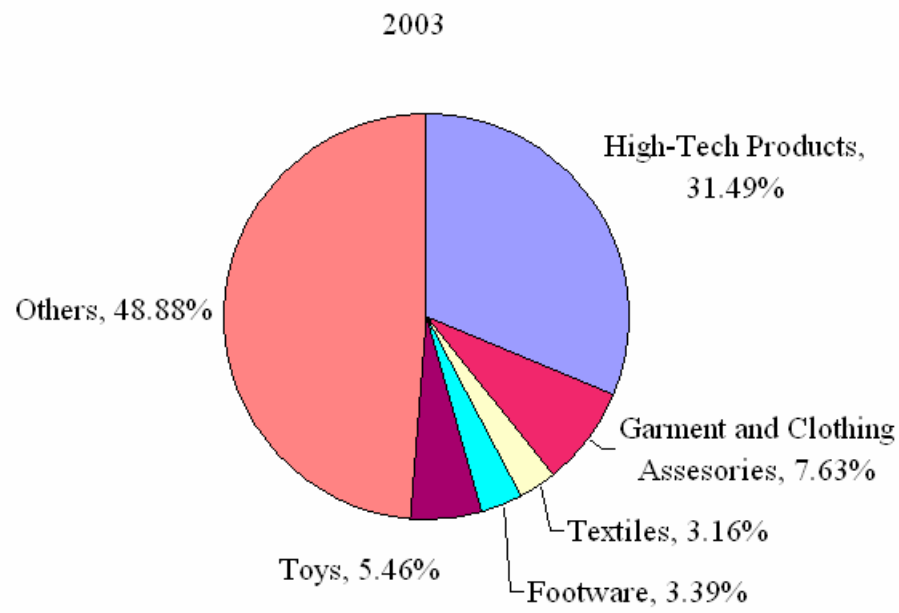


Total export value: 118.46 billion US dollars

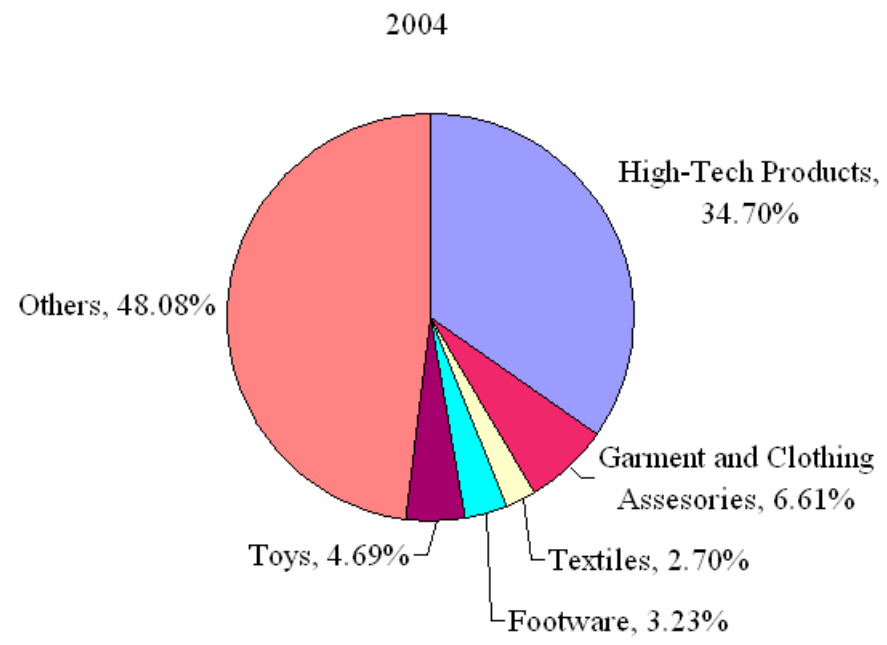
Note 1: Other commodities include plastic articles, furniture, boxes and bags and travel goods, etc.

Source: Guangdong Statistical Yearbook 2003

Proportion of Commodities Export Value in Guangdong



Total Export Value: 152.99 Billion USD



Total Export Value: 191.56 Billion USD

Note 1: Other commodities include some machineries, plastic articles, furniture, boxes and bags and travel goods, etc.

Source: Guangdong Statistical Information Net and China Statistical Bureau Website

Selected Cities & Industries in the PRD

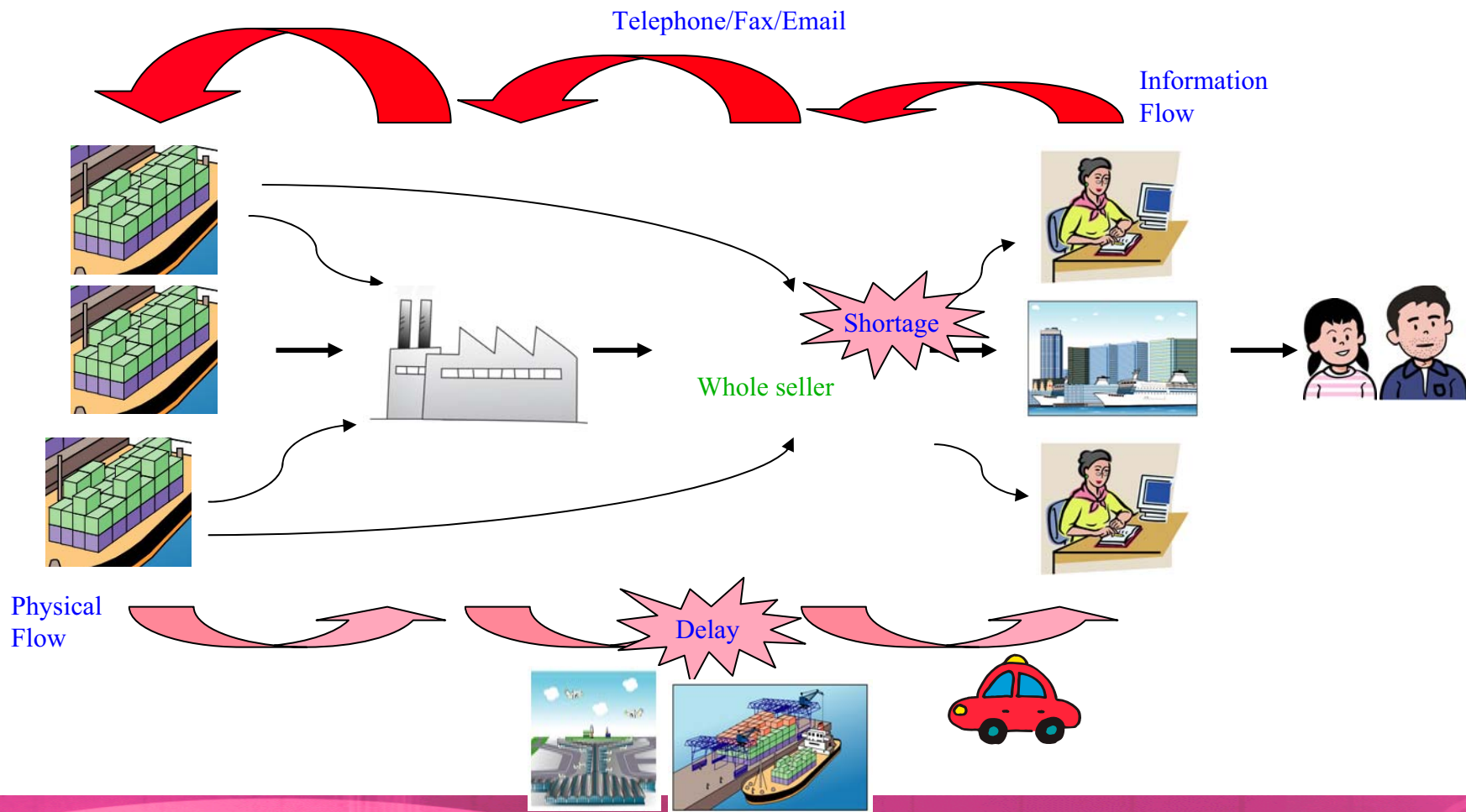
1. Cities

- Dongguan,
- Shenzhen,
- Guangzhou, and
- Zhongshan

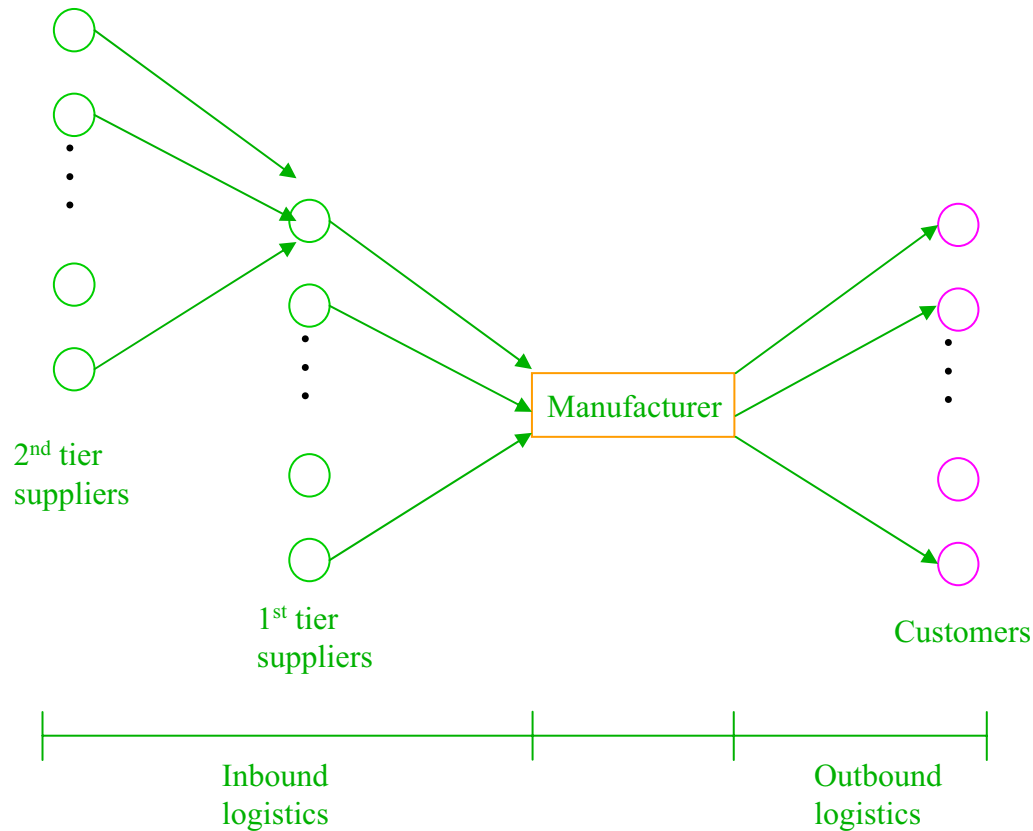
2. Industries

- Electronics,
- Garment,
- Textile,
- Footwear, and
- Toys

Problems of the Current SCM



Studying Supply Chain Structures



1. Physical flows
2. Information flows
3. Decisions
4. Financial arrangement

Parameters for Sketching a SC Structure

1. Customers

- Market locations (% Asia, % USA, etc.)
- Top customers (locations, %shares, etc.)
- Types (% manufacturer, % wholesaler, etc.)
- Information sharing (type of info., frequency, & means)
- Process integration
- Relationship

2. Suppliers

- Top Suppliers (locations, %shares, etc.)
- Information sharing (type of info., frequency, & means)
- Process integration
- Supplier selection & evaluation
- 2nd tier suppliers
- Relationship

Parameters for Sketching a SC Structure

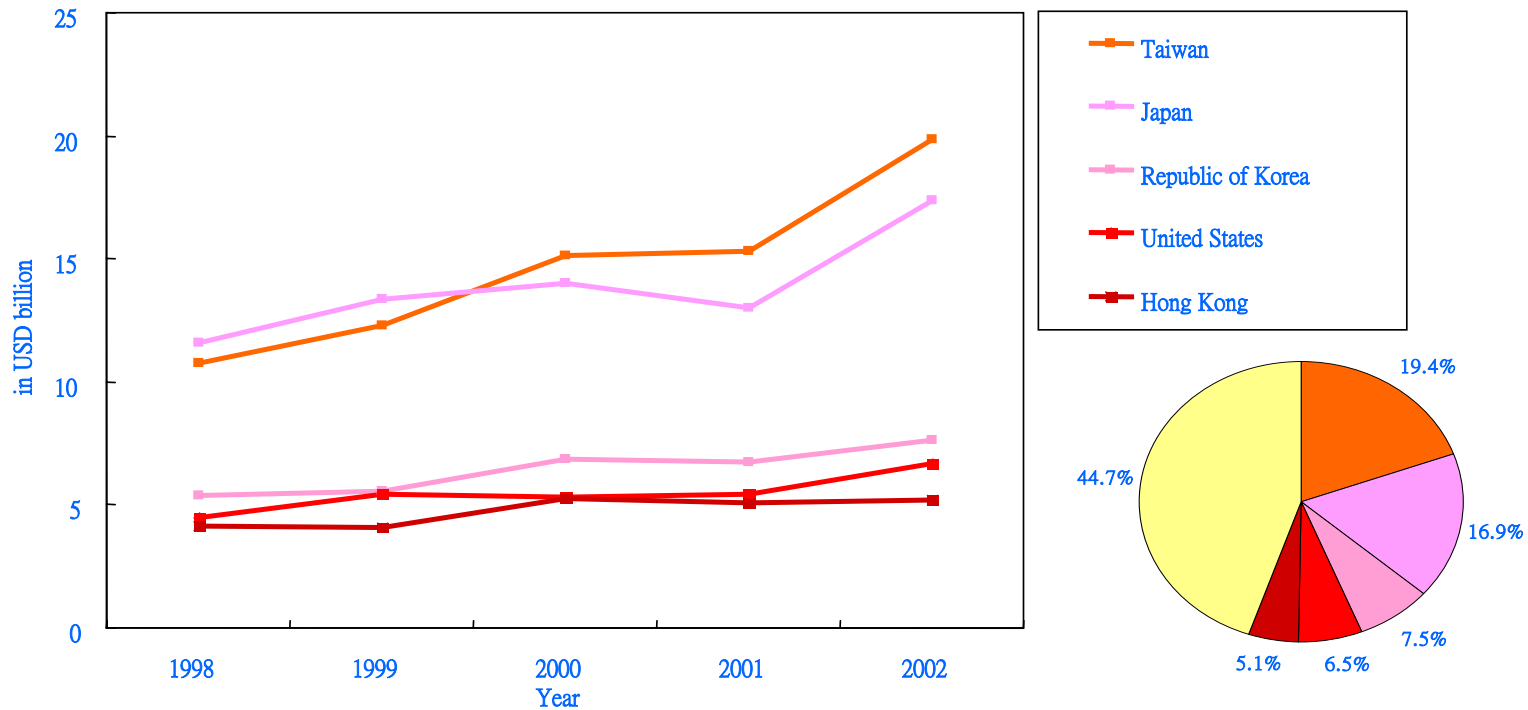
3. Outbound Logistics

- Types of payment term (L/C, FOB, Open account, etc.)
- Product destinations (% , regions)
- Modes of transportation (% thru HK, lead time, costs)
- 3PL (% usage, share of info., evaluation, etc.)
- Services needed (Hub Mgt., customs clearance, information, etc.)
- Who makes the decision

4. Inbound Logistics

- Types of payment term
- Origins of supplies
- Modes of transportation
- 3PL
- Services needed
- Who makes the decision

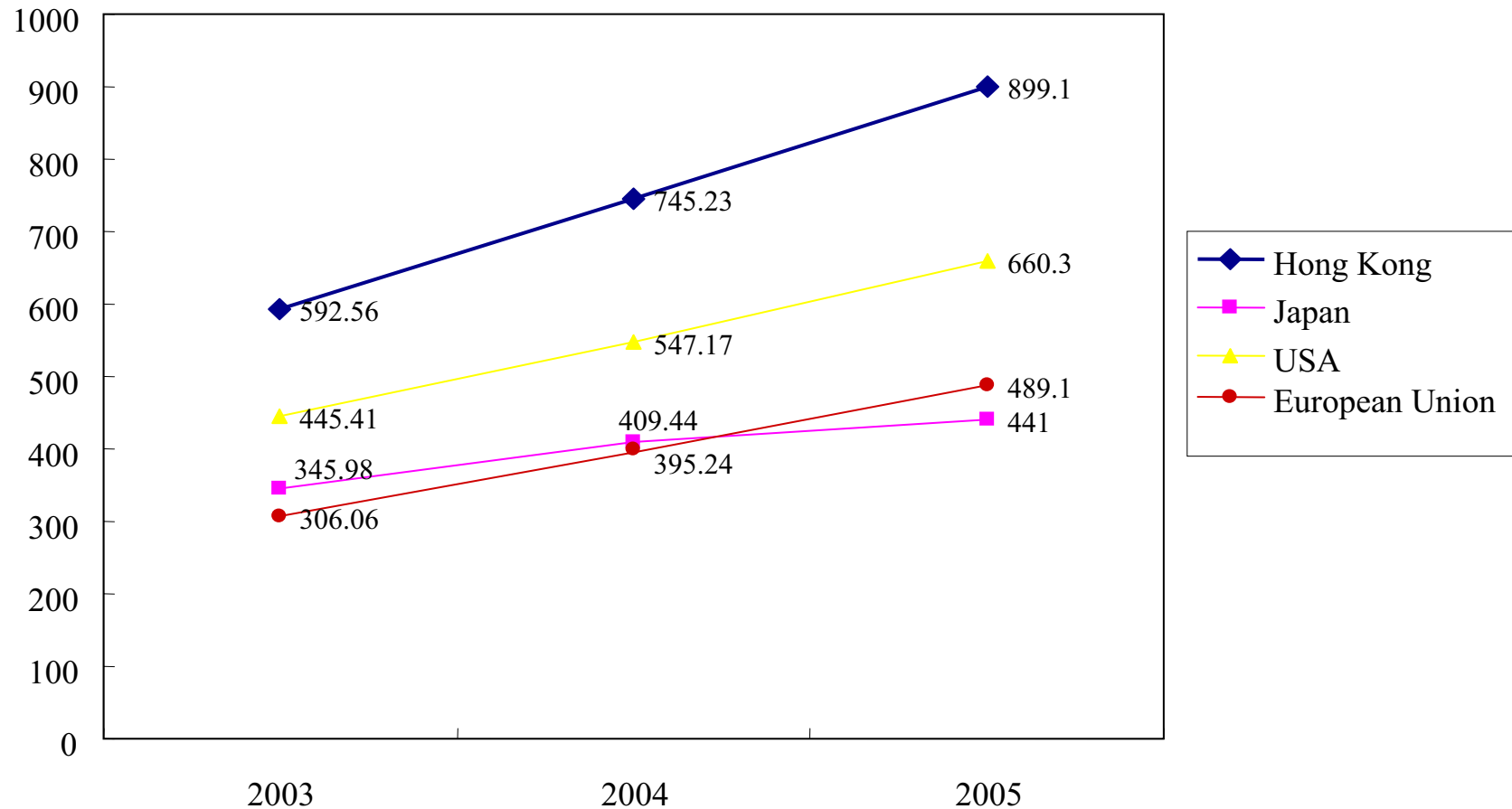
Imports to Guangdong Province from Different Countries



Source: Guangdong Statistical Yearbooks, 2000 - 2003

Year 2002

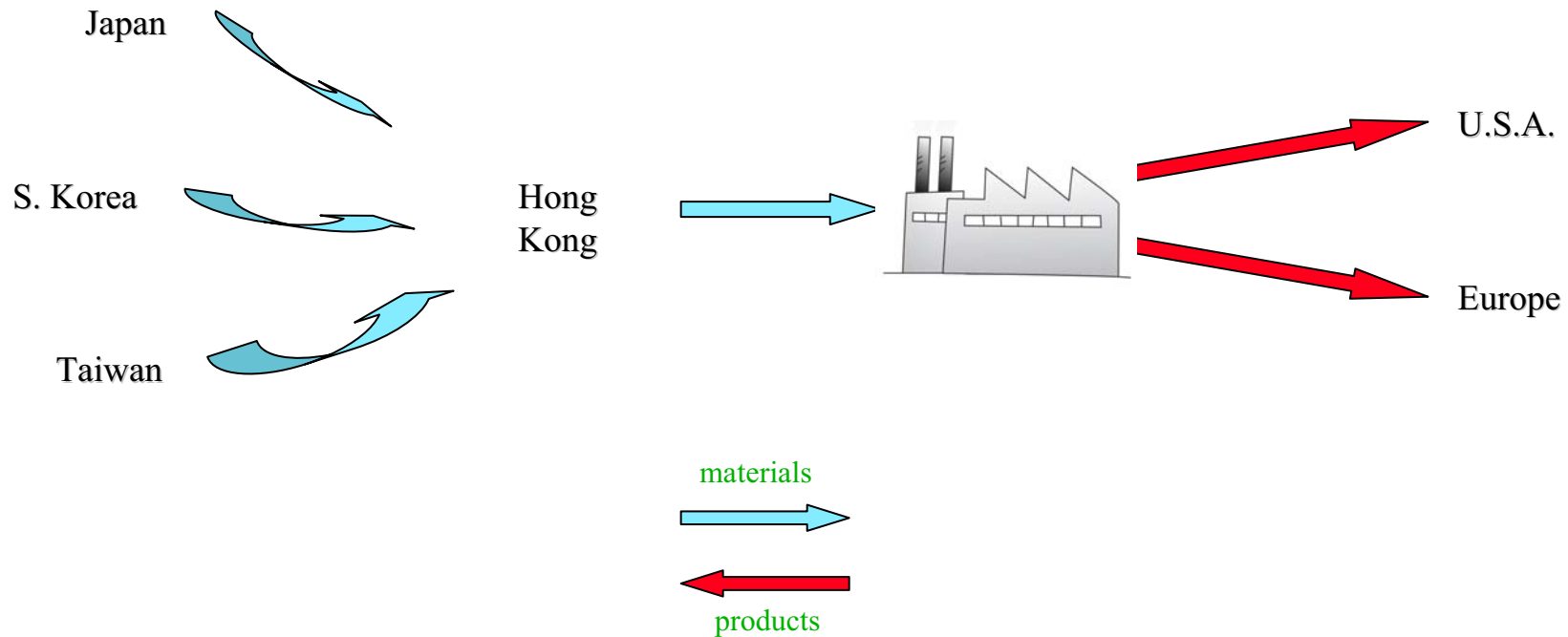
Exports from Guangdong Province to Different Countries



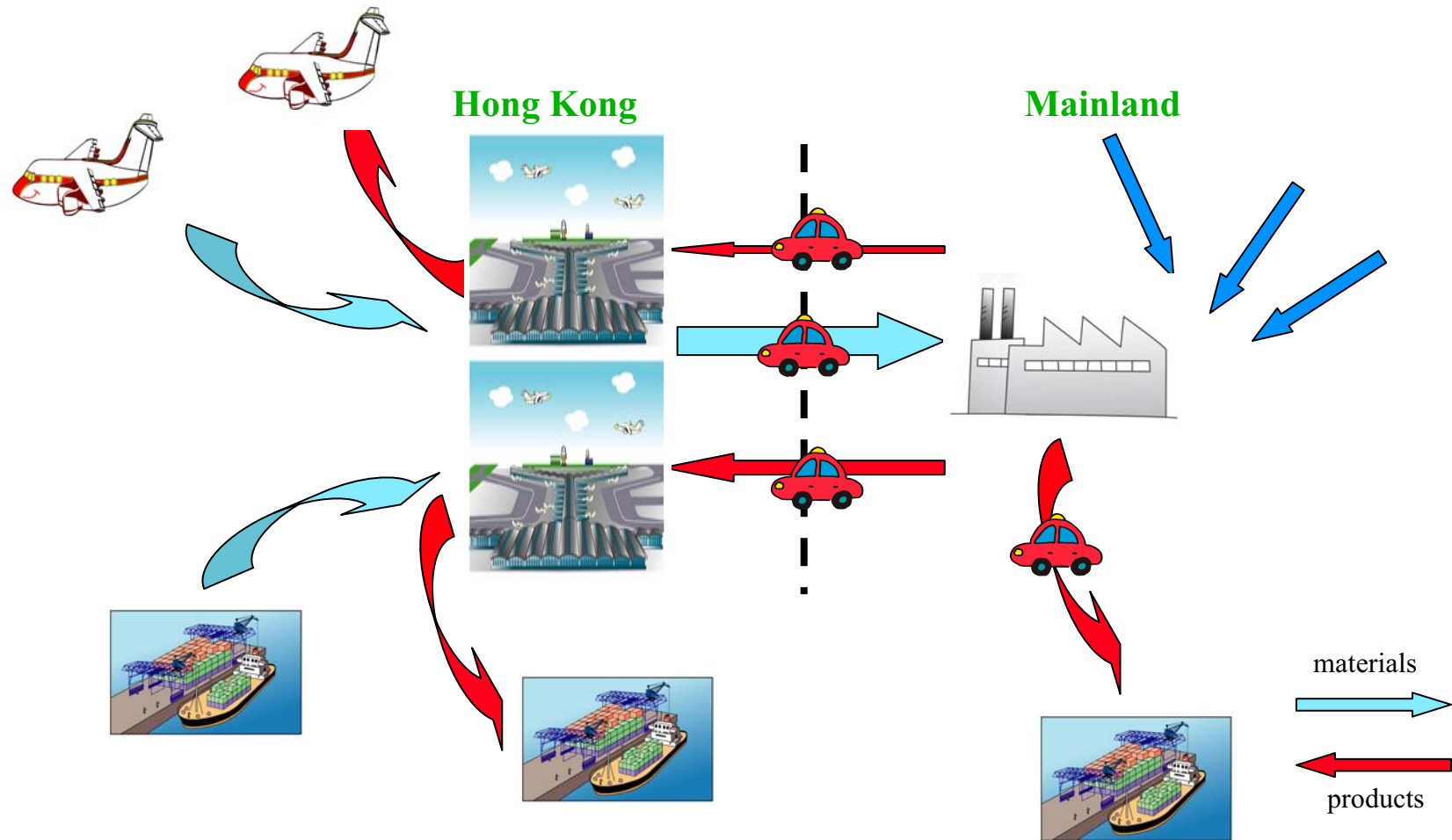
Note: Calculated in hundred million USD

Source: Guangdong Statistics Information Net, Guangdong development and reform committee and Guangdong Custom

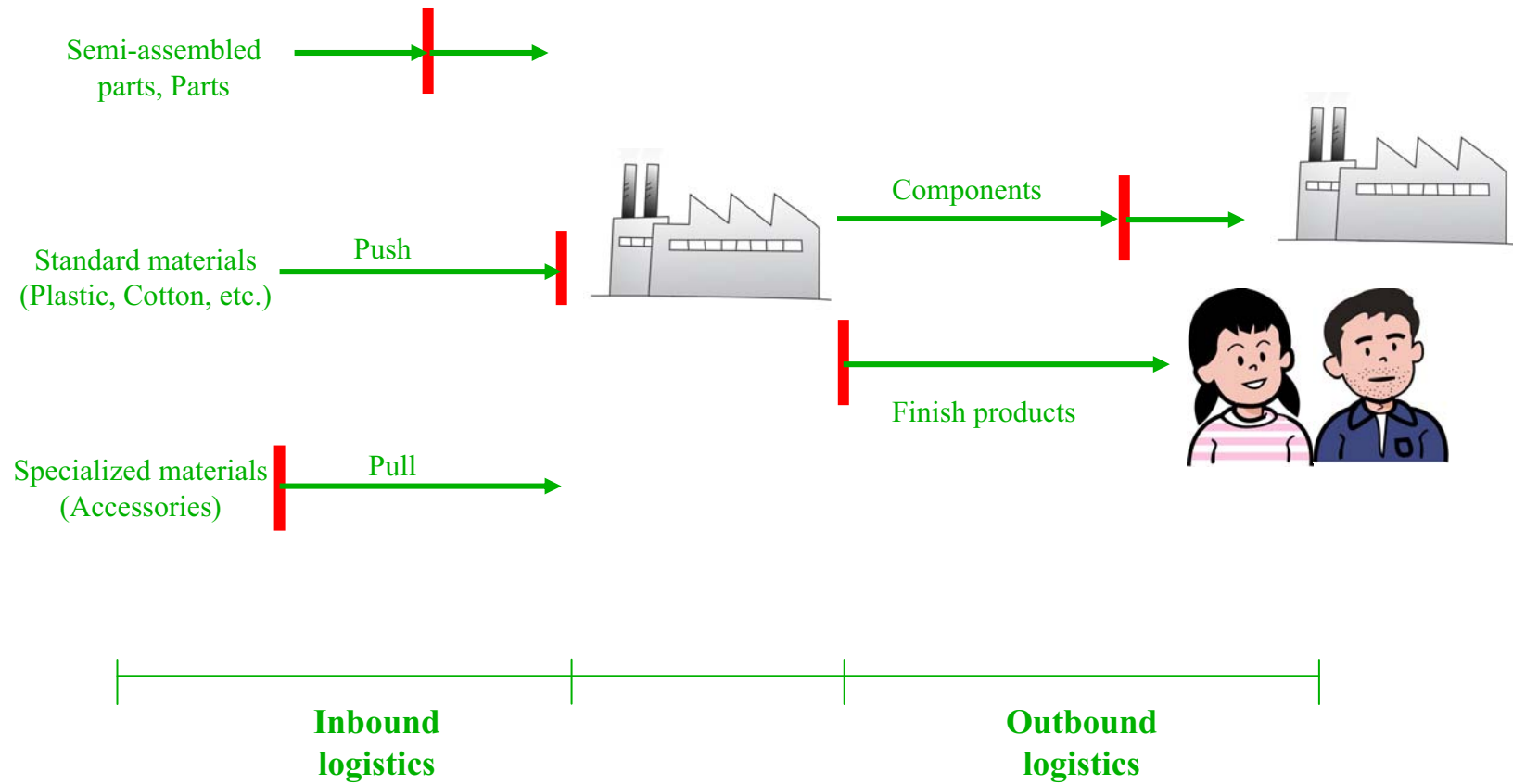
Physical Flow: A Macro View



Typical Physical Flow of a Factory in PRD



Push-Pull Boundary & DMU



A Case of a Electronic Company

Dealing with Customers

A Case of a Electronic Company

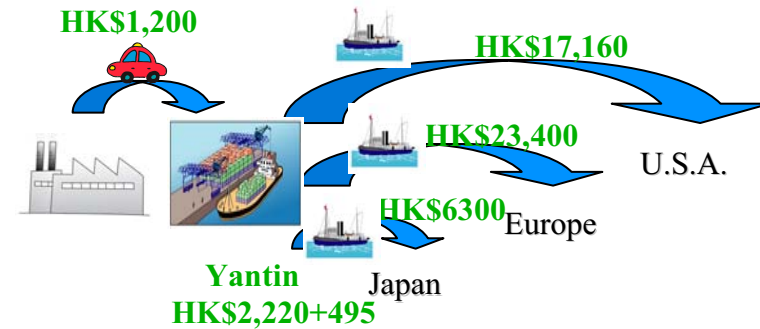
Dealing with suppliers

A Case of a Electronic Company

Cross Border Logistics

Economic Value Analysis I

Economic Value Analysis – Sea Freight



Sea Exports via HK

Sea Exports directly from PRD

	Via Hong Kong		
	AP	EU	US
Trucking Cost	\$3,500		
Terminal Cost	\$3,245		
Freight Cost	\$5,300	\$23,400	\$17,160
Total Cost	\$12,045	\$30,145	\$23,905
Trucking Cost as % of Total Cost	29.1%	11.6%	14.6%

	Via Yantin		
	AP	EU	US
Trucking Cost	\$1,200		
Terminal Cost	\$2,715		
Freight Cost	\$6,300	\$23,400	\$17,160
Total Cost	\$10,215	\$27,315	\$21,075
Trucking Cost as % of Total Cost	11.7%	4.4%	5.7%

Key Difference
\$2,300
\$530
No significant difference

Connectivity Analysis

Sea Freight

Sailing Schedule Comparison

	From Hong Kong	From Yantian	To Hong Kong	To Yantian
Tokyo, Japan	111	12	15	2
Los Angeles, USA	57	32	21	6
Rotterdam, Netherlands	87	43	31	17
Buenaventura, Columbia	24	9	6	4
Port Elizabeth, South Africa	14	0	4	0
Port Louis, Mauritius Island	17	2	3	0

Time frame: October 2004
Source: HK Shipping Gazette



Connectivity Analysis

Air Freight

Air Flight Schedule Comparison

Org.	Des.	#/wk	Org.	Des.	#/wk	Org.	Des.	#/wk
HKG	NRT	85	CAN	NRT	14	SZX	NRT	X
	BKK	129		BKK	14		BKK	2
	ICN	60		ICN	16		ICN	X
	SYD	26		SYD	2		SYD	X
	JFK	7	JFK	X	JFK		X	
	LAX	14	LAX	5	LAX		X	
	SFO	21	SFO	X	SFO		X	
	CDG	14	CDG	11	CDG		X	
	AMS	12	AMS	X	AMS		X	
	LHR	45	LHR	X	LHR		X	

Source: www.airlineplanning.com
 Flight schedule for the month of October 2004

North Asia Pacific Economic Zone

Why thru HK ?

- **Customs Declaration & Formality Certainty**
 - **Minimize hold-up by Customs** - Breakbulk in HK for re-exports to China to avoid risk of hold up by customs
 - **Cross-Border Efficiency** - Shenzhen border is more certain & efficient, particularly for those unpopular items)
 - **Tax & Duty Planning** – HK Corporate Tax, Import Tax / VAT to China
- **Connectivity (Frequent Flight Schedule)**
 - Air Freight ;
 - Sea Freight;
 - Land / Trucking



Findings

- **Import mostly thru HK but significant part of export go direct**
- **North East Asia economic zone established**
- **Passive & low risk manufacturing leads to limited decision power & competition on cost**
- **Service gap indicates potential**
- **Need high value added services to justify high cost**
- **Mainland's complex tax system gives room to HK 3PLs**

CEPA & Logistics

What is CEPA?

- Beyond China's WTO commitments
- Preferential access to China for HK

Trade in Goods

- Products of Hong Kong origin export to the Mainland will enjoy zero tariff from 1st January 2004
- Annual savings in tariffs estimated to be HK\$ 750 million

Trade in Services

- CEPA III covers 10 services area (legal, accounting, construction, distribution*, banking, tourism, transport* etc.)
- CEPA allows HK companies operate on a wholly-owned basis
- CEPA lowers the thresholds of entry

CEPA & Cargo Logistics Industry

- Faster/easier market access for selected services sectors
 1. Logistics related services
 2. Trade services

Timetable for Establishing Wholly-owned Enterprises

	WTO Commitment	Under CEPA
Freight forwarding	January 2006	January 2004
Storage and ware housing	January 2005	January 2004
Freight transport by road	January 2005	January 2004
Freight transport by rail	January 2008	
Courier services	January 2006	
Maritime transport		January 2004
Logistics services		January 2004

Source: Trade Development Council (July, 2003)

Qualifying Criteria

Regardless the nationality of its investors or shareholders,
a company must :

1. be registered in Hong Kong, and have operated substantively for a specified number of years.
2. have substantive business activity in Hong Kong:
 - engage in same business in Mainland
 - pay Hong Kong profits tax
 - own or rent business premises in Hong Kong
 - employ in 50 % or more Hong Kong staff.

Cargo Logistics Services

- China's WTO commitments related to logistics are made on an individual industry basis.
- “Integrated” logistics services between Hong Kong and each province on the Mainland allowed
- Demands for “logistics centers”
- Migration from transport logistics to supply chain logistics
- Use of IT to manage logistics resources in both HK & PRD

Joint Venture or Wholly-owned

- Which one is better?
- In a **DHL** study, over 80% respondents emphasized “wholly-owned” is key for moving to Mainland

Customs

- Zero tariff introduces new commodity category for customs clearance.
- New customs procedures can be introduced. Speed up customs reform?

Status of HK Service Supplier Certificate Application

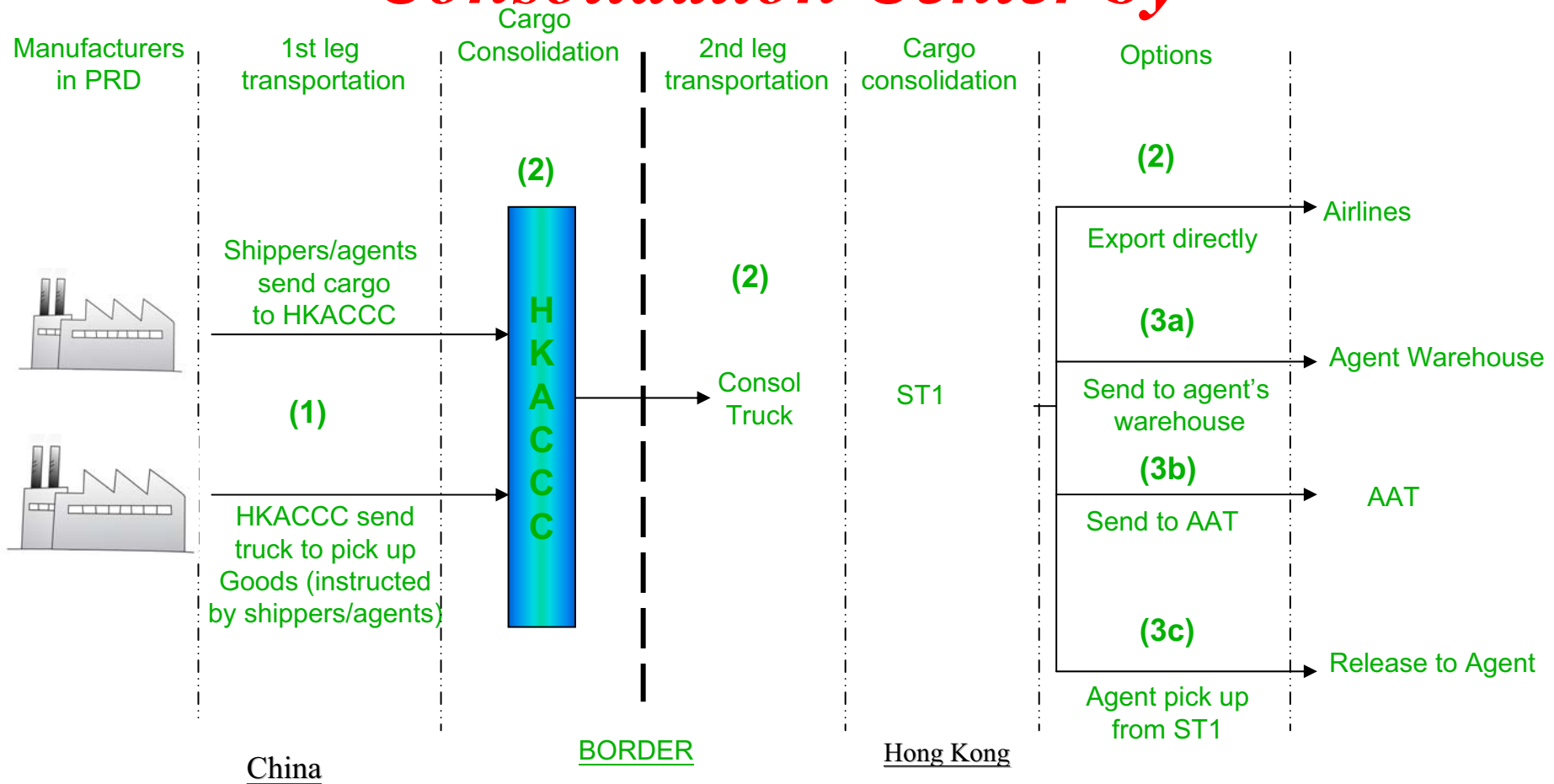
Industries		Approved 02/04	Approved 04/07
1	Logistics	62	478
2	Distribution	21	253
3	Advertising	4	79
4	Construction	-	58
5	Management	4	29
6	Telecom.	13	26
	Bank, Insurance & Securities	4	18
Total		109	1,063

As of April 2007 according to TDC HK

CEPA

Case Studies

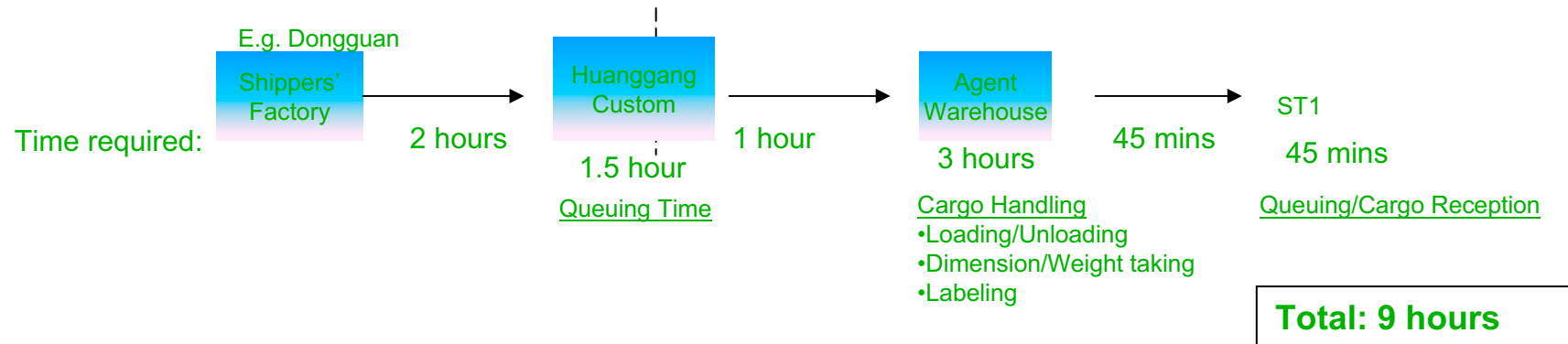
Hong Kong Airport Cargo Consolidation Center by



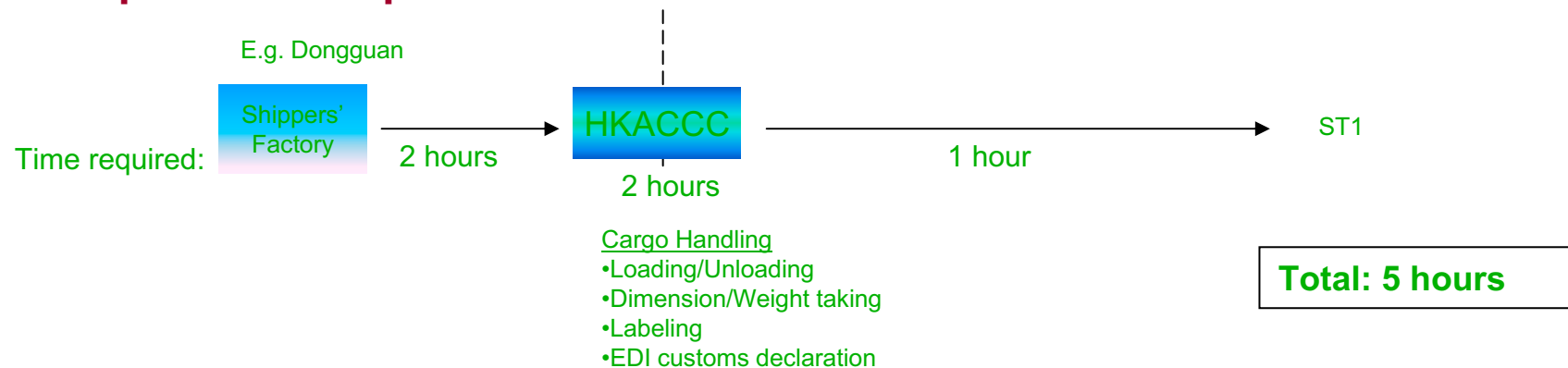
Timing Comparison

Hacis

Current mode of Transport



Proposed Transport mode of HKACCC



Location of HKACCC

- Located in the Futian Free Trade Zone in Shenzhen.
- ◆ With CEPA similar wholly-owned facilities can be setup more rapidly in PRD.

Kerry Logistics Network Limited

- **A subsidiary of the Hong Kong-listed Kerry Properties Ltd.**
- **Services include: contract logistics, distribution centers, air & sea freight forwarding, transportation, distribution & value-added services.**
- **Operates in 8 provinces and JV with**
 - ◆ **JV with Beijing Holdings Ltd.**
 - ◆ **JV with Caohejing Hi-tech Park Development Corp**
 - ◆ **JV with Shenzhen Yantian Port Group**

Kerry Logistics Network Limited

- **Certificated HK Service Supplier**
- **Opening a wholly owned multiple purposes logistics center**
- **Taking advantage of the newly opened Guangzhou Baiyun International Airport**
- **Acquired majority share of a large forwarding company in China**

Airocean Group Limited

- **Listed in the Singapore Exchange**
- **Services**
 - **International freight forwarding**
 - **General sales agency for major international airlines**
 - **Airport cargo ground handling**

LIMA-UBI Transport Intl.

- **Hong Kong based company**
- **US\$ 3 millions registered capital**
- **Licensed international freight forwarder**
- **Non-Vessel Operating Common Carrier (NVOCC)**
- **Class A air-freight forwarding in Beijing, Shanghai, & Dalian**
- **22 branches in various cities in China**
- **400 employees**

Airocean Group Limited

- **Acquired all shares of UBI with US\$ 9 millions**
- **Quickly penetrates China market**
- **Saves time and cost for licensing**
- **Further to take advantage of CEPA**
 - **Set up wholly-owned branches 2 years earlier**
 - **Lower capital investment**
 - **Earlier capture of market share**

Airocean Group Limited

subsidiary

UBI

UBI Transport Intl.

Li & Fung Limited

- **A listed company in Hong Kong since 1992**
- **From a trading company developed into a major distribution and Supply Chain Management**
- **Provides an one-stop service - from product development, through production management, to customs clearance and delivery, etc.**
- **Global Network of 69 offices in 40 countries and territories**
- **Granted export license on Jan. 7, 04**

Li & Fung Limited

- **Under CEPA**
 - Applied Certificate of HK Service Supplier
 - Licensed to import & to distribute in China
- **Benefits:**
 - Full range of services
 - First access to market as a foreign company
 - Estimated saving of HK\$600 millions on tax rebates