



Clearing the Runway for Intra-Asia Trade

Summary of Insights: Hong Kong

Hong Kong's status as a finance and trade hub ensures its continuing relevance to trade in Asia, with the value of its trade with 11 top Asian markets potentially growing from USD861 billion in 2020 to more than USD1 trillion by 2030.

This market summary provides an overview of some of the main insights on intra-Asia trade for Hong Kong as part of a larger study commissioned by UPS and developed by AlphaBeta entitled: "Clearing the Runway for Intra-Asia Trade: Key insights for unleashing the potential for intra-Asia trade by 2030." The 12 markets (i.e., "Asia-12") covered in this report are Australia, China, Hong Kong, Indonesia, Japan, Malaysia, Philippines, Singapore, South Korea, Taiwan, Thailand, and Vietnam. The purpose of this research is to offer key critical insights on the rise of intra-Asia trade and prospects for future growth through 2030, in the context of Asia's continuing economic growth and against the backdrop of increasing volatility in global trade relationships today. The findings from this research showcase the potential for intra-Asia trade to continue its rapid growth over the coming decade, and support governments and businesses in identifying key enablers for this opportunity and steps to capture the potential. This summary is without prejudice to the status of or sovereignty over any territory or boundary. In cases where China is referred, it predominantly refers to mainland China. For the full set of insights, including data sources and methodology, please refer to the full report at: <https://about.ups.com/sg/en/home.html>

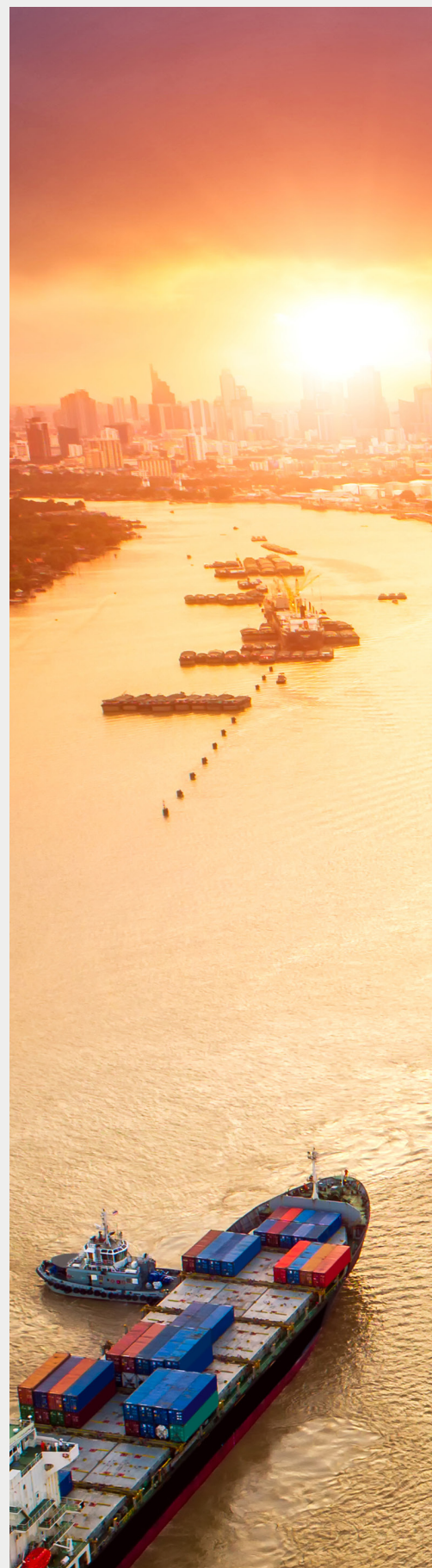


Top 3 insights on intra-Asia trade prospects for Hong Kong

- 1 Hong Kong is a leading finance and trade hub, and it is expected to leverage this position to grow its trade within Asia in the coming decade.** Buoyed by an increasingly wealthy and urbanised Asian population and deeper trade integration in the region, Hong Kong's trade with 11 other major markets (together, the "Asia-12") could receive a boost, growing from USD861 billion in 2020 to over USD1 trillion by 2030.
- 2 Hong Kong's trade growth with the rest of Asia-12 is expected to be driven by four key segments, particularly the high-tech segment.** In total, retail, industrial manufacturing and automotive (IM&A), high-tech, and healthcare account for 92% of Hong Kong's trade with the rest of Asia. High-tech constitutes 65% of this trade and will maintain value in the coming decade, while trade in IM&A could nearly double and healthcare could increase by six times by 2030.
- 3 Businesses in Hong Kong can capture the intra-Asia trade opportunity through three areas of multistakeholder action that could address major barriers to regional trade.** (1) Negotiate comprehensive regional economic partnerships; (2) Collaborate on harmonising product standards across the region; (3) Build resilience into supply chains.

Top 3 takeaways for businesses in Hong Kong

- 1 Digitalise comprehensively, particularly in advanced technologies.** The rise of omnichannel platforms has made timely deliveries critical. Businesses should invest in digitalised, end-to-end supply chains to meet this demand for efficiency by their customers. Digitalising operations will also help businesses adapt to paperless trade regimes.
- 2 Plan for both headwinds and opportunities by diversifying supply chains.** This includes exploring resilient trade routes, such as with South Korea or Japan, and targeting high-value and high-growth ones, such as with China or ASEAN markets. Diversifying supply chains is critical to building resilience in trade flows.
- 3 Promote deeper micro-, small-, and medium-sized enterprises (MSMEs) engagement in trade.** MSMEs and larger companies can collaborate to promote measures to facilitate greater trade, especially harmonised standards that align with international benchmarks. Digital tools developed by logistics providers can also provide critical trade information to MSMEs.



Hong Kong's status as a global and regional hub for trade and finance will ensure its relevance to intra-Asia trade in the coming decade

Asia is a critical component of global trade. Over the past 50 years, Asia has developed into the world's largest manufacturing hub, supported by hubs for trade and finance like Hong Kong, which helped connect factories in Asia to consumers in Western markets including the US and Europe. However, as Asian markets become the global epicentre for new consumer demand, building off a sustained period of economic growth, trade lanes within Asia will gain importance. Already, intra-Asia trade accounts for two-thirds of the region's trade with the world.

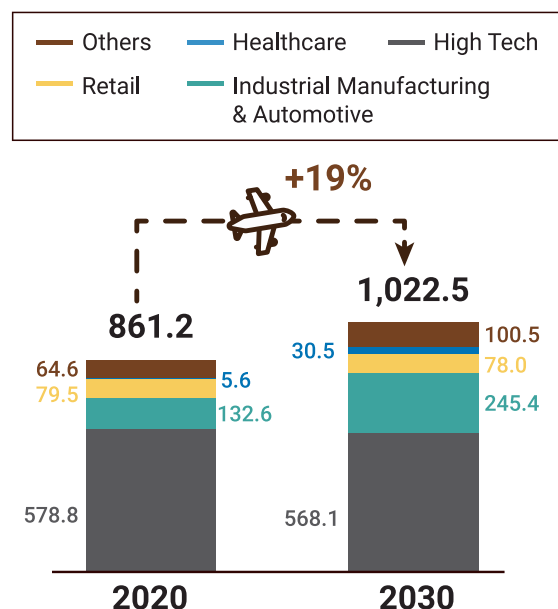
Hong Kong is expected to leverage its position as a confluence of trade and finance for Asia over the coming decade. Trade is critical to the Hong Kong economy – trade value is nearly three times as large as GDP – as is Hong Kong's world-class financial sector, which attracts a range of global and regional companies to conduct business from its shores. In the past decade, Hong Kong's trade with other Asian economies has grown by 2.2% annually and accounts for 11% of intra-Asia trade in 2020, the second largest after China (30%). Hong Kong is set to receive a boost from favourable economic trends around the region, and trade with 11 other major markets (together, the "Asia-12") could grow from USD861 billion in 2020 to more than USD1 trillion by 2030 (Exhibit 1). The Asia-12's growing middle class and urban areas are expected to spur greater demand for traded goods and services to support this growth. Hong Kong could also stand to benefit significantly from entry into regional trade agreements such as the Regional Comprehensive Economic Partnership (RCEP) for which it has formally bid to enter.¹

Hong Kong's trade growth with the rest of Asia-12 is expected to be driven by four key segments: (1) retail; (2) industrial manufacturing and automotive (IM&A); (3) high-tech; (4) healthcare – which constitute 92% of Hong Kong's intra-Asia trade. Among these four segments, trade in high-tech, which accounted for 65% of Hong Kong's trade with the rest of Asia in 2020, is expected to continue driving post-pandemic trade in certain markets, riding Asia's wave of digitalisation. Asia-12 economies are already more digitalised than the global average while also advancing on digital adoption metrics at a faster rate.² Nearly 700 million people in Asia Pacific will join its Internet population by 2025, creating a new generation of e-commerce consumers.³ Hong Kong's strengths in key products that will be in greater demand in this segment, including broadcasting equipment, circuits, and mobile phones, position it to capture these opportunities.⁴ A few key trade lanes will facilitate this growth. While estimates suggest that trade in the high-tech segment may decline with Hong Kong's largest trading

Exhibit 1

Hong Kong's trade with the Asia-12 is set to grow by 19% by 2030

Hong Kong's trade with the rest of Asia-12 USD billions



Note: The methodology for these estimates can be found in the Appendix of the main report.

SOURCE: ITC; AlphaBeta analysis

partners (China, Japan, South Korea), trade with Australia and ASEAN markets could see rapid growth, offsetting this decrease. ASEAN markets have already proved critical to high-tech trade for Hong Kong – growing by 6.3% annually between 2011 and 2020 and outpacing the 4.5% overall growth posted for all four segments between Hong Kong and ASEAN in the same period.

Increased investment in supply chain innovation and high-quality infrastructure will also contribute to long-term resilience.

Digital innovation will contribute to the development of Hong Kong's supply chains, with key technologies that improve supply chain productivity expected to be deployed at scale in the coming years. These include robotics and automation in warehouses, blockchain-based inventory management, and smart tracking of cargo. The Hong Kong government's Smart City Blueprint is also expected to direct investments towards smart mobility and transportation, such as autonomous vehicles, with a productivity boost expected for the transport and logistics sector as a result.⁵

Intensifying barriers to regional trade and supply chain shifts could prove detrimental

A range of barriers to greater trade today could hinder Hong Kong's pathway to trade growth, preventing it from capturing the full potential of intra-Asia trade. Hong Kong businesses surveyed for this study indicated lack of harmonisation of standards as the top barrier to trade, among five other barriers identified (Exhibit 2). These six barriers remain largely unaddressed by policy and business action due to trade tensions, supply chain shifts, and uneven investment and engagement of MSMEs in supply chains, and could intensify in the coming years. As a regional trade hub that is highly dependent on the free flow of goods and people, strict or restrictive trade policies across Asia could disproportionately damage Hong Kong's long-term trade prospects, more so than most other Asia-12 economies that are less sensitive to trade.

As a result of these barriers, Hong Kong's trade with the Asia-12 could decline by 2030. Trade could total USD505 billion in this "Deglobalisation" scenario (Exhibit 3) – equivalent to a fall of 41% as compared to a rise of 19% in the previous scenario.

Supply chain shifts precipitated by the COVID-19 pandemic, and rapid advances in robotics and automation around the region, have dampened trade prospects for Hong Kong. These shifts have exposed a shortage of labour, skills, and shortened supply chains due to shifting cost competitiveness. For instance, the pandemic has increased the cost of doing business in Hong Kong, as stringent pandemic-related restrictions create bottlenecks within the supply chain, with logistics costs almost doubling for merchants between 2020 and 2022.⁶ Businesses in Hong Kong are also sensitive to external developments – for example, as majority rely on China to sustain trade relationships within the region and the globe, China's strict COVID-19 curbs during the pandemic severely impacted their trade flows. Additionally, two-thirds of Asian businesses surveyed by the Asian Development Bank (ADB) in 2021 stated that they planned to source more goods locally in the coming years – further constraining the potential for Hong Kong to trade more intensively with markets more distant from home.⁷

Finally, intensifying geopolitical tensions also contribute significantly to these trade barriers. Geopolitical risks such as territorial, economic, and political disputes with other economies have proven detrimental to trade in the past, particularly in the high-tech and retail segments.

Exhibit 2

Businesses in Hong Kong face six barriers to regional trade

Top barriers to trade in Hong Kong

Ranking based on respondents conducting trade in Hong Kong

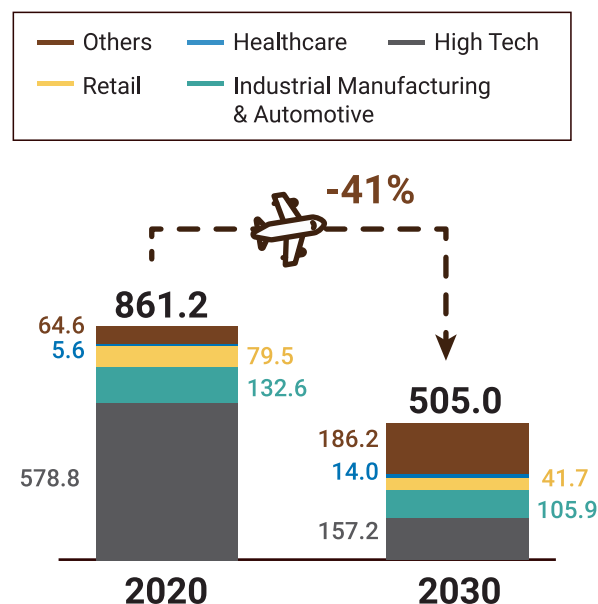


SOURCE: Industry survey of 198 businesses that conduct trade in the Asia-12 economies; AlphaBeta analysis

Exhibit 3

Headwinds could cause Hong Kong's trade with the Asia-12 to decline

Hong Kong's trade with the rest of Asia-12 USD billions



Note: The methodology for these estimates can be found in the Appendix of the main report.

SOURCE: ITC; AlphaBeta analysis

Proactive effort by governments and businesses is needed to capitalise on the intra-Asia trade opportunity

Multistakeholder action is required to reduce impediments to regional trade and harness the opportunities to steer intra-Asia trade towards take-off.

Action by businesses or government alone is not enough to address the key barriers to trade – active involvement by all stakeholders within the region and across the supply chain is key. There are three main areas for multistakeholder action in Hong Kong: (1) Negotiate comprehensive regional economic partnerships that address tariffs, harmonise standards, simplify customs, and promote MSME competitiveness; (2) Collaborate

on harmonising product standards across the region to reduce compliance burdens; (3) Build resilience into supply chains via public-private investments.

Businesses with trade interests in Hong Kong and those in the logistics sector must proactively account for opportunities from intra-Asia trade and build resilience against potential headwinds. Three key actions that can be taken by businesses include digitalising completely, diversifying supply chains, and promoting integration of MSMEs into regional supply chains.

01



**Digitalise
comprehensively**

Digitalise comprehensively, particularly in advanced technologies. An increasing usage of omnichannel platforms, where consumers can order products and services across a wide range of platforms and devices, means that the management of large volumes of orders and deliveries becomes critical to success. Investing in a digitalised, end-to-end supply chain is crucial to meet this need for efficiency. In Hong Kong, around 69% of businesses surveyed by the Hong Kong Trade Development Council in 2020 highlighted that they planned to develop more online distribution channels post-pandemic.⁸ However, Hong Kong-based

companies tend to invest more in basic technologies such as digital marketing and customer relationship management while investing less in advanced technological applications like data analysis tools, which can enable firms to process millions of orders at once while warehouse and storage automation allows them to manage and meet deliveries. Artificial intelligence (AI)-enabled tools that can analyse and identify tariff codes or automatically input customs data could also smoothen regulatory import-export procedures for businesses, making trade simpler and more efficient. For instance, UPS uses AI to learn individual shipping patterns and behaviour to simplify shipping processes and make it easier for small businesses to ship their products. Businesses can also adopt digital tools for improved visibility and control of shipments. UPS's My Choice[®] for Business and Billing Centre allow MSMEs to centralise and aggregate tracking and payment-related data on customised dashboards.⁹ Digitalising operations will also help significantly with adapting to paperless trade regimes that will be a key feature of trade in the coming decade.

02



**Diversify
supply chains**

Plan for both headwinds and opportunities by diversifying supply chains into resilient trade routes and targeting high-value and high-growth trade routes. Diversifying supply chains has become critical to building resilience in trade flows that faced severe disruptions during the COVID-19 crisis. Many trade routes offer opportunities for resilient and rapid growth when considering trade with Hong Kong (Exhibit 4). Trade routes with South Korea and Japan, in which Hong Kong businesses have invested in the manufacturing and healthcare sectors, offer a source of resilient growth. Additionally, trade routes

in the healthcare segment could prove extremely resilient, with 91% of trade value today potentially growing even in a “deglobalisation” scenario. Hong Kong has seen much investment within this segment which could provide a base for future trade, with foreign medtech start-ups entering the market with the intention to expand into mainland China.¹⁰ On the other hand, in a scenario where trade doubles, a range of high-value and high-growth trade routes are available for Hong Kong businesses (Exhibit 5). Across all key segments, China is expected to remain the economy's largest trade partner within the coming decade, similar to today, despite declines expected in key categories such as high-tech. ASEAN markets present Hong Kong businesses with an opportunity for rapid growth, providing a wider range of manufacturing bases to outsource production across parts of their value chains. Hong Kong-based companies have increasingly shifted toward ASEAN markets, such as Vietnam, as locations for manufacturing bases and regional expansion.¹¹

03



Partner with and integrate MSMEs

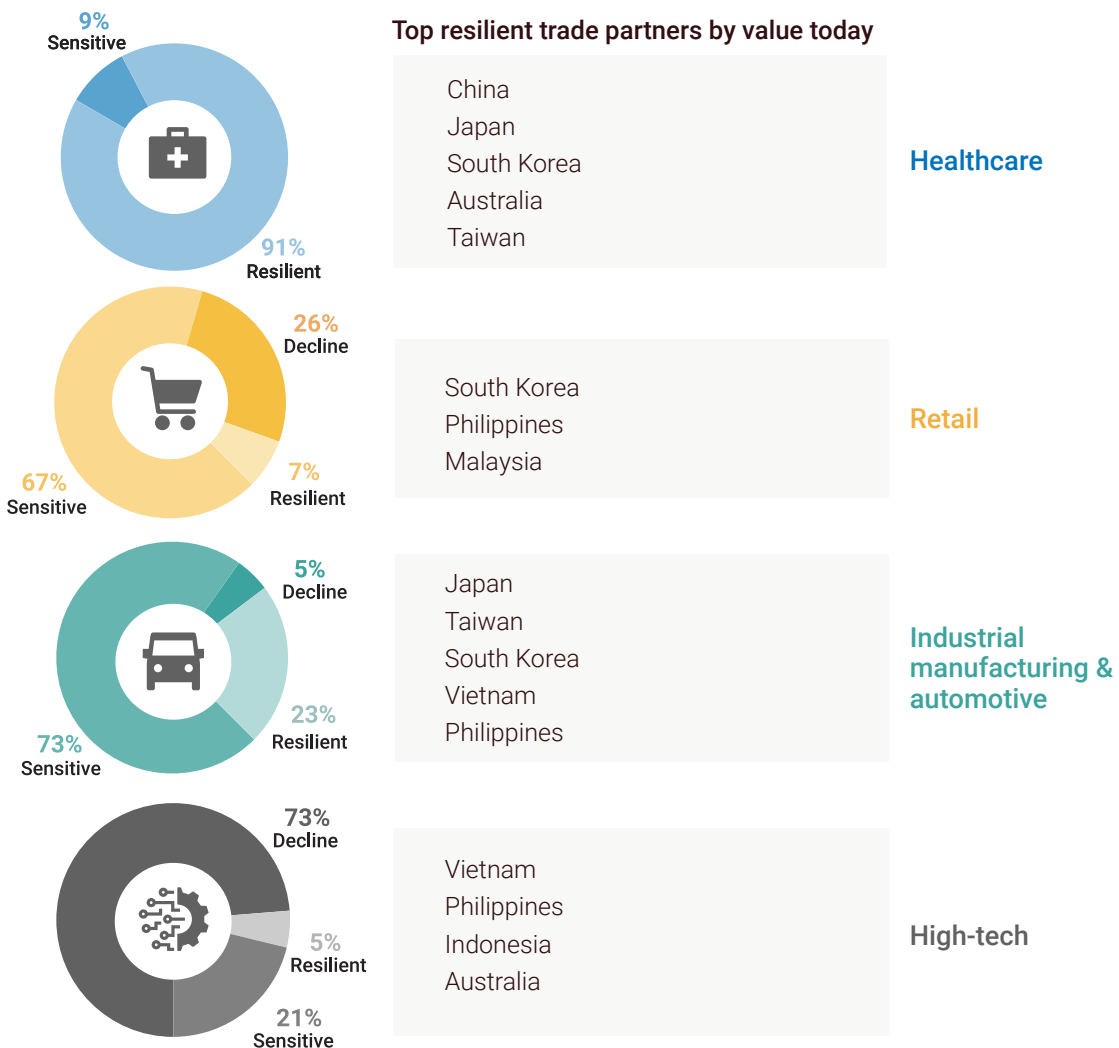
Promote deeper MSME engagement in trade. Hong Kong businesses have demonstrated strong potential to leverage export opportunities, particularly MSMEs, which on average generated 88% of their revenue from exports before the pandemic.¹² This places them in a strong position to capitalise on the Asia trade opportunity if current trade barriers to trade are addressed. This includes harmonisation of standards, which businesses have ranked as the top barrier to trade in Hong Kong in this study, and customs procedures and currency exchange issues, which were cited as key challenges for 50% of MSMEs in Hong Kong shown by a separate study.¹³ MSMEs and larger companies can collaborate to promote measures to facilitate greater trade, especially harmonised standards that align with international benchmarks. Digital tools developed by logistics providers can also provide critical trade information to MSMEs. UPS's range of plug-and-play application programming interfaces (APIs) allow businesses to get estimated duties, taxes, and brokerage fees for cross-border shipments to prevent unforeseen payment delays or additional costs, while using AI to learn individual shipping patterns and behaviour. These tools can also help MSMEs navigate international shipping regulations and compliance, identify restricted entities, access market-specific customs data and documentation, and prepare paperless invoices.¹⁴

Exhibit 4

Firms can invest in resilient trade routes within each segment to hedge against supply chain shocks

Share of Hong Kong's trade with the Asia-12 sensitive to geopolitical shocks, by segments¹

Share of each priority segment trade value in 2020 (%)

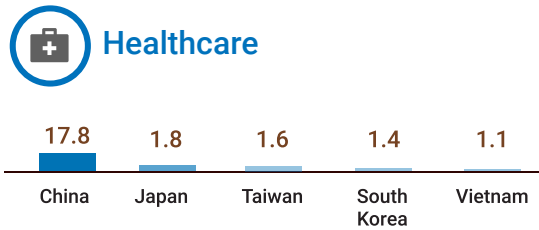


1. Each figure represents a share of trade value in 2020 that is forecasted to be under either the resilient, sensitive, or decline category in 2030. Resilient trade refers to trade routes that may expect positive growth in either worst-case or optimistic scenarios, while sensitive trade refers to trade routes that may see positive growth only within the optimistic scenario. Declining trade refers to trade routes that may see slight contractions regardless of either.
SOURCE: ITC; AlphaBeta analysis

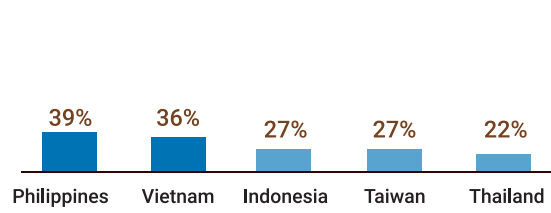
Exhibit 5

China will remain as Hong Kong's largest trading partner, while ASEAN economies offer strong growth potential in the coming decade

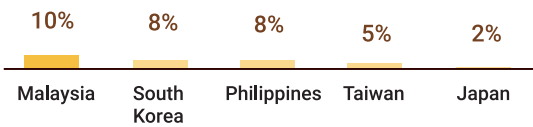
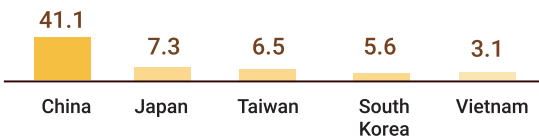
Top 5 projected trade routes in 2030 by value, USD bn¹



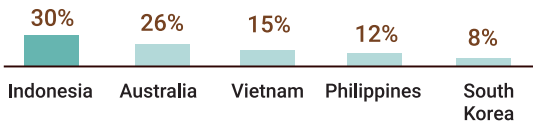
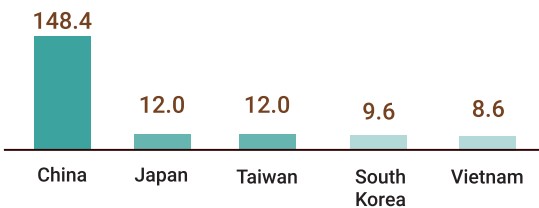
Top 5 projected trade route partners, by growth rate till 2030, %¹



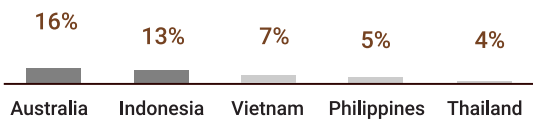
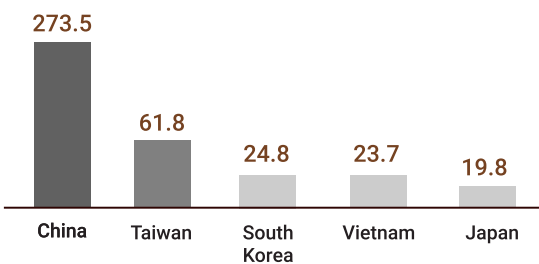
Retail



Industrial manufacturing & automotive



High-tech



1. Projections are based on an optimistic scenario of Asia's trade environment, as outlined in Chapter 1 of the main report, where intra-Asia trade will take off and be driven by trends such as regional trade agreements, supply chain innovations, and a rise in digitalisation. These projections should be taken as an ideal outcome rather than guidance.

SOURCE: ITC; AlphaBeta analysis

Endnotes

1. Nikkei Asia (2022), "Hong Kong applies to join RCEP trade agreement" Available at: <https://asia.nikkei.com/Economy/Trade/Hong-Kong-applies-to-join-RCEP-trade-agreement>
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12. Sources include: South China Morning Post (2022), "Hong Kong SMEs' digitisation efforts have paid off during Covid-19 pandemic, PayPal survey shows." Available at: <https://www.scmp.com/business/companies/article/3162427/hong-kong-smes-digitisation-efforts-have-paid-during-covid-19>; FedEx (2018), "FedEx Research Shows Hong Kong SMEs Continue to Expand Their Global Footprint." Available at: <https://newsroom.fedex.com/newsroom/fedex-research-shows-hong-kong-smes-continue-to-expand-their-global-footprint/>
13. *Ibid.*
14. UPS (2022), "UPS TradeAbility®" Available at: <https://www.ups.com/hk/en/services/international-trade/tradeability.page>

