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Hong Kong-Shenzhen-Guangzhou as a multi-gateway trading city-region for cross-border e-retailing: A geographical analysis

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1. Executive Summary

This report summarises the key findings of our research study on the development of cross-border e-retailing (thereafter “e-tailing”) (“CBE”) among the CBE stakeholders in three South China cities, namely Hong Kong, Shenzhen and Guangzhou, based on which we shall also provide our key public policy recommendations for the consideration of the HKSAR Government.

CBE refers to processes that consumers purchase online from merchants located in other jurisdictions (we shall focus only on tangible goods). It is a specific species of e-commerce which has rapidly developed into a new paradigm of international trade. By delivering purchased products directly to end-users while eliminating certain intermediary trading procedures, CBE is derived but different from conventional trade not only in creating new added values to consumers, but also in trading and logistics. In this regard, CBE is comparatively much more fragmented and things imported are regarded as ‘personal goods’ instead of commercial products as in conventional trade. This has immense impact on the global supply chain.

We consider CBE as a new and critical means of the global consumption networks (GCN) which focus on how geography of consumption is formed and altered by global networks structured by consumer service providers whose goal is to satisfy the needs of consumers through competitive while often tailor-made facilitation. In response to the new modes of international trade and revolutionary changes in consumer purchasing behaviour brought forward by CBE, governments and enterprises are required to exercise necessary institutional shifts in order to capture the new business opportunities arise ahead.

Being an important and premier international trading centre and transport hub in Asia, Hong Kong should have its unique role in this new paradigm developed along with the rapid growth of CBE at a global level, particularly in China which is the world leader in e-commerce. Hence, the city is facing mounting competition and challenges particularly in view of the establishment of the Guangdong Pilot Free Trade Zone (PFTZ) whose main objective is to promote the global trade connectivity in South China. Against this backdrop, we attempt to establish Hong Kong’s strategic positioning by understanding the current models of global supply chains tailored for the special needs of CBE, and make viable policy recommendations that can support and help Hong Kong enterprises, especially small-and-medium enterprises (SMEs), stay competitive and make inroads in the CBE arena.

We have constructed a conceptual framework composing of four key stakeholders, namely consumers, suppliers, e-retail channel providers (RCP) and logistics services provider (LSP) to help analyse the ways RCP and LSP work for CBE in e-marketplaces. It is found that the effectiveness of e-retail channels in locating and attracting targeted customers is subject to the awareness and preference of individual brands among international consumers and this may vary between different geographical locations. As for the choice of LSP, customers may consider tradeoff between total price and door-to-door delivery time.

China is the leader in the global e-commerce market which garnered more than one third of the market share in 2015. It is estimated that China’s CBE sales turnover was around RMB4.8 trillion (or 19.5% of China’s total trade turnover) in 2015, mainly from exports, and it is expected to further jump to RMB12 trillion in 2020. At this juncture, Business-to-Business
(B2B) is a dominant mode for China’s export CBE, registering a much higher share than that of Business-to-Consumer (B2C).

Based on our research findings, we have observed two most popular CBE models adopted in China, namely “direct posting” mode and B2B4C (business to bonded warehouse for consumers) mode. The first model refers to a conventional way of direct shipment that uses the postal system to fulfill delivery for online orders. Upon confirmation of order, the product becomes ‘personal goods’ and shipped often by express delivery services. The second model, on the other hand, makes use of bonded warehouses in the destination country to realize the benefits of conventional trade business for the ‘first mile’ shipment before the actual purchase to reduce delivery time and logistics cost. Owing to a combination of factors, such as proximity to manufacturers, historical and current resources in trading networks, differences in customs policies and regulations, enterprises of the three cities have behaved rather differently in response to the CBE boom.

Being the provincial capital of the Guangdong Province and one of the oldest trading windows of China, Guangzhou possesses a strong base of traders, and rich assets in terms of human resources and experience in international trade. According to Guangzhou’s 13th Five-Year Plan for Commercial Development, the city will be developed into an international trade centre, a modern operating centre for handling global sourcing and order receipts, a distribution centre as well as a key re-exports hub. Guangzhou’s established and projected position in both imports and exports trade facilitates its comparative prominence in CBE, particularly in the B2B4C mode, as witnessed in the growth of CBE in Nansha Pilot Free Trade Zone. CBE firms in Guangzhou have leveraged on Guangzhou’s geographical advantages and technical competence to take up an integrative intermediary role in the global supply chain.

On the other side, Shenzhen’s high attraction to nationwide calibre and competitive advancement in information technology make its endeavours in CBE a somewhat natural and logical choice. The total number of CBE enterprises have accounted for around 10-20% of all Shenzhen enterprises with eligibility to conduct international trade. While Shenzhen may appear to be highly aggressive in making their presence in the CBE market, the development of B2B4C in Qianhai Free Trade Zone has consistently failed to achieve scale economies. Instead, the traditional way of exploiting policy loopholes in customs clearance continues to be the more preferred mode. Shenzhen’s proximity to Hong Kong may be part of the reasons for this outcome as exploitation of various ‘grey channels’ via Hong Kong is physically and economically more viable.

Compared with that of Guangzhou and Shenzhen, the development of e-commerce and CBE in Hong Kong can be characterised as cautiously slow. In our survey among the local logistics companies, around 27% reported to have engaged in e-commerce but none regarded it as their core business. The marginal engagement and slow pick-up of Hong Kong companies in CBE are due to the compound effect of various factors. Hong Kong is equipped with well-developed and accessible local retail facilities, and its free port status has facilitated import of international products at a competitive price. These likely temper the enthusiasm in CBE among Hong Kong companies and consumers. In absence of a large domestic market and a strong industrial base, Hong Kong logistics companies, most of them are at their maturity stage, are less willing to take risk in pursuing CBE ventures. CBE is therefore being considered only as a new add-on to their established business lines. Their hesitation and lukewarm attitude towards CBE is also attributed to other local constraints, including insufficiency of logistics land and e-commerce
talents, though Hong Kong has the perfect regulatory and social infrastructure, unparalleled by any other Chinese cities, for taking up the key role of a premier CBE service hub in Asia.

Hong Kong is a free port, an international financial centre and a modern trading and transport hub in Asia that can offer high-quality professional services to promote CBE regionally and globally. It possesses the qualities and strengths of an ideal offshore platform for Mainland and overseas CBE players with simple tax and customs structure, transparent and reliable legal system, and the most comprehensive range of professional services. The unexpectedly negative impact of China’s April 8 New Regime not only leads to the suspension of part of the new policy since the end of May 2016 but also helps unfold the special role of Hong Kong in China-related CBE, which are summarised as follows:

1. **The biggest and closest overseas warehouse.** Hong Kong may play the role of a bonded area next to Mainland China for running the B2B4C mode without taking the risk of policy uncertainty in China.

2. **The hub for supportive activities in a market-oriented business environment with international standards.** Hong Kong’s independent jurisdiction of free port status not only ensures efficient handling of inbound and outbound cross-border goods, but also facilitates CBE business in many other ways. For instance, Hong Kong can offer all-rounded foreign currency banking services for e-tailers, e-platforms and LSPs in China who want to keep non-RMB payments outside the Mainland, achieve agility in consolidation and distribution for multiple markets in and around Asia-Pacific region, and provide the best Asian air-connectivity to the world.

3. **A trustworthy and professional brand.** Hong Kong can provide dynamic value-added services in relation to CBE of general certification service - vendor and product certification and professional certification service on special products. Hong Kong enterprises can also assist in setting quality standards for specific products and perform product inspection for quality assurance.

Various public and private entities in Hong Kong have contributed in enhancing the institutional environment for CBE. For example, Hong Kong Post Office (HKPO) and Hong Kong Trade Development Council (HKTDC) have introduced their e-commerce platforms. HKPO’s ShopThruPost facilitates online retailing of Hong Kong vendors whereas HKTDC’s Small Orders Zone is a buyer-oriented online sourcing platform creating new business opportunities and flexibility for direct sourcing of products in small quantity. However, the above initial initiatives are relatively inadequate in terms of service scope and promotional efforts, thereby affecting their overall effectiveness. On the other side, Hong Kong Federation of E-Commerce’s ‘Hong Kong Trust Mark’ scheme and GS1 Hong Kong’s ‘Hong Kong Trusted Product’ Programme are designed to tackle the issue of e-trader and product authentication. The former sets quality standards for e-merchants while the latter offers an online traceable information system to access information of certified products and their vendors possibly through HKPO’s ShopThruPost platform – so that users can build ‘double trust’ with this programme.

It is suggested that HKTDC and HKPO should further enhance their customised CBE platforms by collaborating with other CBE stakeholders such as Hong Kong Quality Assurance Agency (HKQAA) and GS1 Hong Kong, and incorporating different kinds of authentication services
into their e-platforms to achieve greater synergy. This serves to help Hong Kong based SMEs raise their brand awareness and enter China and overseas markets. In the longer run, launching certification and inspection services of products at the origin countries, particularly for some high-valued and popular products could be considered to address consumers’ concern about product quality and safety.

In view of the above, CBE not merely affects the prospects of the trading and logistics sector which is the largest sector of the four pillar industries in Hong Kong contributing 22.3% of value added in GDP and 748,000 employment in 2015, but also other pillar industries such as finance and professional services. We observe that Hong Kong’s logistics sector has a rather consistent view regarding their wish list for supportive policies from the Government. With the rapid development of CBE, some of the “old” problems are becoming more acute while new enhancement requirements specific to e-commerce emerge. Taking into account the feedback of CBE players in Hong Kong and the Mainland, we come up with the following priority areas of policy supports for the consideration of the Government:

**Government restructuring**

The complexity and growing importance of CBE deserves and requires a more holistic approach in policy development and implementation specifically relating to e-commerce, and Hong Kong needs a long-term and all-rounded strategy for developing CBE which demands a flexible and inviting business environment conducive to the survival and growth of both large and small players from overseas and local markets. To achieve this, we believe that the Commerce and Economic Development Bureau, instead of the Innovative and Technology Bureau, will be in the best position to steer e-commerce policy-making in Hong Kong, as the former can tackle the policy issue from the perspective of trade and economic development. Afterall, e-commerce is fundamentally trade-related, and information technology is the means rather than the ends. Besides, we propose to establish a new statutory body to look after postal services of Hong Kong (including CBE related business) because an independent public entity outside the Government structure will facilitate its reaching out for the ample transnational or business cooperation opportunities provided by the cross-border online retailing boom at a global scale.

**Land policies**

To perform the role of a premier service hub for CBE and China’s ‘closest overseas warehouse’, Hong Kong apparently needs to increase its logistics land expeditiously. We support the request of the logistics sector for additional land allocated for the development of logistics park, whereby logistics activities can be more concentrated for achieving higher logistic efficiency and cost-effectiveness. The establishment of CBE sub-park is further recommended to facilitate the promotion and sustainable development of CBE business in Hong Kong.

**Manpower policies**

The shortage of talents who are familiar with the CBE operations and related cross-border formalities is another major obstacle practically faced by Hong Kong companies when starting up CBE business. This requires clearly defined policy objectives and roadmaps for planning the necessary manpower supports in tertiary education, professional training and industry-specific promotions to enhance the awareness and understanding of the existing and potential CBE workforce about the essence of CBE and to help them adapt to the new trade paradigm
developed along with the CBE boom. In this regard, it would be doubly effective if the Government can work closely with different logistics and CBE business associations in offering large-scale educational and publicity initiatives.

New focus of professional services

Hong Kong has strong competitive advantages in providing professional services in relation to CBE. Apart from traditionally strong trade-facilitating professional services sectors including financial and insurance services, trading and transportation, we would recommend to allocate more public resources for supporting the healthy growth of niche industries of certification, product inspection and quality assurance.

Strengthening supports of public entities

We propose to step up the supportive and promotional efforts of relevant public entities, such as HKPO, HKTDC and HKQAA, to help foster Hong Kong’s important role in global CBE supply chain. The proactive supports and assistance of these key stakeholders are critical and essential to most of CBE prospectors in Hong Kong which are likely to be SMEs.

Information technology supports

CBE relies heavily on IT support throughout the process and the equipment of various logistics systems is indispensable in improving internal operational efficiency as well as customer satisfaction. Hong Kong companies, particularly SMEs, are relatively weak in this respect and therefore requires more educational and technical support to upgrade their overall service propositions. Government and public entities should take the lead in helping SMEs to fill this technology gap.

In conclusion, CBE brings two very different modes that involve different stakeholders as building fabric of GCN. It seems to us that “Global brands + Local omni-channel” is the way to go for GCN. Besides, CBE brings pressure and changes to the existing networks. Network providers are pushed to create new time-sensitive products and integrated to serve greater coverage, which is changing the geographies of GCN. In this connection, we argue that Hong Kong can take up the special role of a premier service hub in the multi-gateway trading city-region in South China for CBE to serve Asia Pacific and the rest of the world.
摘要

本報告扼要闡述了有關香港、深圳及廣州三個南中國主要城市在跨境電商產業的發展研究的主要結果，並以此作為基礎，向香港特區政府提出相關的公共政策建議。

跨境電商泛指消費者透過網絡向位於其他國家或司法管轄區的賣家購物的過程（這裡將集中討論有形商品），這種電子商貿新形式的快速發展已成為國際貿易的新典範。跨境電商的運作有別於傳統貿易，它通過把已購物品直接送遞給最後用家，跳過某些貿易中介程序，不僅為消費者帶來增值點，更對貿易過程及物流產生很大變化。相對而言，跨境電商市場更為碎片化，進口的東西會被歸類為‘個人物品’，而不是傳統貿易中的商品，這分野對國際供應鏈的影響極其深远。

我們認為跨境電商是環球消費網絡（GCN）中一條非常重要的全新途徑。目前環球消費網絡的研究重點，是當消費性服務供應商為了滿足顧客的需求而提供富競爭力、甚或是為客人度身訂造的便捷方案時，在國際消費網絡間如何重新形成及改變消費地域的分佈。同時，因應跨境電商在國際貿易模式及消費者購物習慣上引起的革命性改變，政府以至企業也需適時作出制度上的改變，才能及時捕捉未來的無限商機。

世界電子商務市場近年的高速發展，特別是在領頭羊 - 中國在跨境電商方面取得的成績的大背景下，香港作為亞洲一個重要的優質國際貿易及運輸中心，在這條環球國際消費網絡新途徑中應擁有其獨特的角色。但香港同時正面對著日益激烈的競爭，其中為了促進南中國與世界貿易連結而成立的廣東試點自貿區帶來的挑戰尤其巨大。在這前提下，我們就環球供應鏈中現行因應跨境電商特定要求而出現的不同模式進行了詳細分析，並嘗試找出香港的策略定位及提出相關的公共政策建議，以助香港中小企業在跨境電商市場上保持競爭力及拼出業務增長的新出路。

為了方便分析在網上零售市場中，各零售管道提供者與物流商是如何配合跨境電商提供服務，我們構建了一個由消費者、供應商、電子商務渠道供應商及物流商四大利益相關方組成的框架。根據我們的觀察，網上零售渠道在捕捉及吸引目標客源方面的成效，很大程度上受制於品牌在國際間的認知度和受歡迎程度，對此，不同國家或地域之間，看法是有分歧的。而在選擇物流商時，顧客通常會在總運費與送到門的時間兩者之間權衡利弊。

中國是世界電子商務市場的領導者，在2015年佔據世界超過三分之一的市場份額。同年，中國跨境電商的銷售規模估計達4.8萬億元人民幣（相等於中國貿易總額的
19.5%），主要来自出口。跨境电商的规模预计将在2020年激增至12万亿元人民币。

目前企业对企业的(B2B)是出口跨境电商的主要模式，比企业对消费者的(B2C)的份额高出很多。

我们的研究结果显示，中国现行最为普遍的跨境电商模式有两种，分别是‘直邮’及‘保税备货’形式。前者颇像以往直接海运的的传统模式，利用邮政系统的服务以完成网上订单的交货程序；当订单一经确认后，相关产品就成为‘个人物品’，常经快递方式运送到目的地。第二种模式则是利用在目的地所在国家的保税仓进行操作，早在顾客于网上下订单前，实质上已实现传统贸易中第一公里集集体运的效益，既省送运时间，也省运费。基于与货源地的距离、过往及现有在国际贸易网络中的资源、各口岸海关规章及条例的差异等不同因素，造成三地企业在面对跨境电商市场的崛起时反应迥异。

广州作为广东省省会及中国最早的对外贸易窗口之一，拥有包括大量贸易商和实战经验在内的对外贸易基础。《广州市商务发展第十三个五年规划》进一步计划把广州打造成国际商港及营运中心、现代国际采购交易中心、主要商品口岸贸易集散中心及转运贸易中心。广州过去及未来在进出口贸易的位置确立了它在跨境电商中的比较优势，尤其是发展保税备货模式方面，这可见证于这一新模式近年在南沙自贸区的不俗表现。广州的很多跨境电商企业也正倚仗广州的地理及行业优势，逐渐担上了全球供应链中综合中介人的角色。

深圳对全国人才的吸引力及资讯科技领域的先进技术令大力发展中跨境电商变得顺理成章。现时深圳跨境电商数目占全市可进行国际贸易的企业中约10-20%。虽然深圳在发展跨境电商方面表现积极进取，但前海自贸区的保税备货业务始终未能达到规模经济的水平，也许是由深圳有邻近香港的便利，让各种经香港的‘灰色通道’更为可行。

相比之下，香港在跨境电商的发展可谓审慎缓慢。在我们的业界调查中，有27%声称他们的公司有从事电子商务相关业务，但其中并无任何一家视之为公司的主要业务，说明香港企业目前只是较边缘性介入电商平台市场，起始较慢，这是很多因素综合而成的结果。首先，香港本身的零售设施已经非常成熟便捷，自由港的优点也让不同的外国进口货品可以更具竞争力的价格在香港容易购到，导致香港公司与消费者并不如内地般热衷于跨境电商服务。在缺乏庞大内需市场及工业基础的支持下，再加上香港物流业普遍已处于成熟收成期，物流公司不太愿意过多承担发展跨境电商新业务的风险，往往只当作是原有业务上加添的副业。当然，香港物流业对发展跨境电商业务的迟疑取态，也是某种程度上反映出本地存在的一些条件约束的现实，比方说在物流用地和港
懂電商業務的人才上的匱乏。事實上，香港擁有完善的監管制度及社會基建，足以肩負起亞洲高端跨境電商服務樞紐的角色，而且最少目前為止，並無其他中國城市可以勝任。

香港作為一個自由港，也是國際金融中心與亞洲現代貿易及運輸樞紐，有足夠條件為全球及區域跨境電商市場提供高質的專業配套服務。香港同時兼備中國內地及外國跨境電商企業心中理想離岸平台的所有優點，包括簡單稅制和海關程序丶透明可靠的法制及最全面的專業服務。而市場對中國針對跨境電商發展而推行的四八新政的負面反應，不但令部份相關新措施在 2016 年 5 月底開始暫緩執行，也讓我們看到香港在中國相關的跨境電商業務中的特殊角色，其中包括：

1. 成為中國內地最大及最近的海外倉。香港以中國內地毗鄰的獨特地理位置和有別於中國內地的制度，可望在保稅備貨模式中擔任中國境外免稅倉的角色，並同時兼有避免中國政策不穩定風險的優勢。

2. 市場主導的商業環境中能符合國際標準的支援服務樞紐。香港擁有獨立自由港的地位，無論是出口或是入口的跨境貨物，都能保證以最有成本效益及彈性地處理，這項附加值在爭分奪秒的跨境電商市場的優勢尤為突出。同時，香港亦可為中國電商丶電商平臺供應商丶物流商在境外的非人民幣外幣完成各類外匯交易，靈活處理進出亞太區多個市場的貨物集散活動，以及提供連接亞洲與世界各地的最佳航空網絡。

3. 值得信賴丶彰顯專業精神的品牌效應。香港可配合跨境電商業務的需要提供多樣化的周邊服務，包括商家及一般性產品認證或是為個別特定產品提供專業認證服務。香港企業甚至可以參與制訂特定產品的品質鑑定標準，以及為保障產品品質而進行的檢驗服務。

事實上，香港一些公營及私人機構正因應跨境電商的新需求，為優化本地制度環境作出配合和努力。例如香港郵政及香港貿易發展局（貿發局）近年分別開設了商貿銷售平台。香港郵政的網上購物坊「樂滿郵」，支援香港商家的網上零售業務，而貿發局的‘小批量採購’網站是一個賣家主導的網上採購平台，為小批量產品創造了直接採購的商機。可惜這些初步舉措在服務範疇及宣傳方面尚嫌不足，成效未能完全顯現。另一方面，香港電商聯會的‘香港電商信譽商標’計劃及香港編碼協會的‘香港信心產品計劃’都是為了解決有關電商及網上產品真偽和品質的疑慮而設，前者為電商訂立品質標準，
而後者提供網上信息追蹤系統，用家更可透過香港郵政的「樂滿郵」平台取得經認證的商戶及產品資料，獲得兩家機構的雙重信心保證。

我們建議貿發局及香港郵政等公營機構，應繼續加強為跨境電商度身訂造的平臺的功能，並通過與其他跨境電商相關方，例如香港質檢局及香港貨品編碼協會等機構合作，將各類認證服務加入貿發局及香港郵政的現有平臺，爭取更佳的協同效應，進一步幫助香港中小企提高品牌知名度和打入中國及海外市場。長遠來說，我們建議可開拓來源地落地品質認證服務，特別是針對個別高價值和受歡迎產品，以消除消費者對這些產品的質量及安全的疑慮。

基於以上的分析，跨境電商的發展不僅影響到貿易及物流業的前景，也同時可促進其他支柱行業，例如金融業及專業服務業的發展。單就貿易及物流業而言，它是香港四大支柱行業之首，在 2015 年的增加值佔本地生產總值的 22.3%，涉及 748,000 就業人口。香港物流業對於政府需要提供什麼樣的支持政策看法頗為一致，在跨境電商長速發展的同時，以往存在的“老問題”變得格外嚴峻，而特別針對跨境電商的新需求又不斷衍生。參考了香港及內地跨境電商參與者的反饋後，我們在以下提出幾項較有急切性的政策支持方向，以供政府考慮：

**重組政府架構**
無論是基於跨境電商的複雜性，還是它與日俱增的重要性來看，政府都值得及有需要從一個整體角度出發制定及推行電子商務相關的政策；香港也非常需要長遠而全面的針對跨境電商發展的策略性計劃，以創造富彈性和友善的營商環境，以協助香港及海外各類規模的參與企業能得到生存及茁壯成長的空間。要達至這樣的正面效果，我們認為商務及經濟局較創新科技局更適合負責統籌香港電子商貿的政策，前者從促進本港整體貿易及經濟發展的角度出發將能更全面地切人問題的本質和核心，畢竟電商產業是以‘貿易’為根本的，科技只是手段。此外，我們亦建議成立一間全新的法定機構負責香港郵政事務（包括跨境電商相關業務），因為一家獨立於政府現行架構以外的公營機構，更有利於在世界跨境電商市場上主動向外尋找商機或跨國合作的機會。

**土地政策**
香港要成爲跨境電商優質服務樞紐及中國內地最近的海外倉，增加物流用地已然刻不容緩。物流業多年來持續要求增加土地興建物流園，使各類物流活動能更為集中，以提高物流效益和效率；我們認同業界這方面的素求之餘，更進一步建議在未來的物流園內劃出部份土地興建跨境電商物流園，以促進香港跨境電商業務的推廣和持續發展。
人力政策

熟悉跨境電商業務操作人才的匱乏是香港企業在開展跨境電商業務時實際需要面對的其中一大難題。針對這點，我們需要在高等教育、專業培訓、行業推廣等範疇有更清晰的政策目標與路線圖，以有效提高現有或潛在跨境電商從業員對這種新貿易模式本質的認知和了解，以至他們如何適應和融入由跨境電商起動而建立的全新貿易範例。我們也相信如果政府能與相關物流業及跨境電商協會緊密合作，聯手推出富教育及推廣性質的大型活動，定能收事半功倍之效。

新核心專業服務

香港在跨境電商相關專業服務享有明顯優勢，除了傳統促進貿易的優勢專業服務，如金融及保險業和貿易運輸業外，我們建議增撥更多公共資源，支持包括認證、產品質檢和品質保證等相關專業行業的健康發展。

增加相關公營機構對業界的支援

我們認為與跨境電商相關的公營機構，例如香港郵政、貿發局和香港品質保證局等，應進一步加大對業界的支援及對跨境電商服務的宣傳力度，以助鞏固香港在跨境電商全球供應鏈中的重要角色。來自這些重要利益相關方的支援對大部份參與跨境電商業務的香港企業（主要是中小企）來說是十分關鍵的。

資訊科技的支援

跨境電商整個流程對資訊科技的依賴度甚高，包括各種物流電腦系統的完備，對改善公司內部營運效率及提升客戶滿意度都是不可或缺的。香港公司（特別是中小企）在這方面一般表現較弱，極須在意識及技術上的支援，以提升企業的整體服務水平。政府及公營機構應在幫助企業補上這技術缺口方面擔起牽頭作用。

總括而言，跨境電商帶出兩套截然不同的運作模式，它們各自透過不同的利益相關方構建環球消費網絡中的脈絡。我們認為‘環球品牌 + 本地多渠道零售模式’將是環球消費網絡的未來發展趨勢。再者，跨境電商的確為現有網絡帶來壓力和轉變，網絡供應商被迫推出以省時為本的產品及聯手擴大服務網，這些也將改變環球消費網絡的地理分佈。有鑑於此，我們認為在服務環球跨境電商業務方面，香港在南中國多口岸貿易城市區域中定能肩負起高端服務樞紐的獨特角色，為亞太區以至全球市場服務。
2. Introduction

Trading and logistics sector is the largest sector of the four pillar industries in Hong Kong contributing 22.3% of value added in GDP and 748,000 employment in 2015. Mainland China’s rapid economic growth and new policy initiatives on e-commerce, particularly cross-border e-retailing (e-tailing, “CBE”), have brought both opportunities and challenges to this sector.

CBE is a specific type of e-commerce that has rapidly developed into a new paradigm of international trade. This e-commerce-based paradigm deviates from conventional trade in delivering purchased products directly to end-consumers while skipping some trading procedures in-between. Such fundamental change has raised two important questions that are faced by Hong Kong, particularly in view of the opportunities as well as threats posed by the rapid development of CBE in China, the world leader in CBE, and the establishment of the Guangdong Pilot Free Trade Zone (PFTZ) which further promotes the global trade connectivity in the Pearl River Delta (PRD) Region:

1. How do the changes alter the existing trading channels and patterns of transportation and logistics services when trade networks, hubs and routing are reconfigured to fit the requirements of global supply chains that serve CBE?

2. What kind of transportation and logistics gateway is suitable and competitive as an intermediate place for this new trade paradigm?

With a view to establishing CBE as a new growth area of Hong Kong economy, this research attempts to inter alia examine the roles and positioning strategies of Hong Kong in the trading city-region of CBE for South China that is mainly composed of Hong Kong, Shenzhen and Guangzhou.
3. Research Objectives and Methodology

Specifically, the key objectives of this research include the following:

- To explore and investigate CBE as a new trade paradigm, which will establish a theory on the geography of CBE, particularly a free-trade-based intermediate gateway, on international trade and transport hubs, and complement the theory of place intermediary in transport geography;

- To examine the different operational models of CBE from a global supply chain perspective with a geographical focus on Hong Kong as an intermediate place for this new mode of international trade;

- To analyse how CBE chains select different gateways in the Pearl River Delta region of South China and the major reasons behind the selection; and

- To present public policy recommendations to the Hong Kong SAR Government on attracting and facilitating CBE activities to upgrade and strengthen the role of Hong Kong as a regional trade hub and make Hong Kong, Shenzhen and Guangzhou as a trading city-region.

The above objectives have been achieved and explained in the main text of this report.

As the first part of this exploratory study, we have conducted an online questionnaire survey in May-June 2016 among a wide spectrum of Hong Kong logistics service providers via the database of Hong Kong Shippers Council and the Chartered Institute of Logistics and Transport in Hong Kong, to understand the business patterns of those engaged in e-commerce. The findings suggest that CBE has not been the core but merely a new extended business line of Hong Kong logistics service providers. It is therefore difficult, if not impossible, to identify the “typical” local CBE operators and quantify their activities. In the circumstances, we decided to observe the different roles of players with engagement in operations and logistics of CBE in South China, namely Hong Kong, Shenzhen and Guangzhou (including Qianhai (Shenzhen) and Nansha (Guangzhou) Pilot Free Trade Zones). To achieve this, we have conducted over 30 in-depth interviews among different stakeholders, including government agencies, trade organizations and firms engaging in CBE in the three selected cities. Our primary aim is to investigate the various CBE business models developed in this Region.

In March 2017, a forum on the development of CBE in the PRD Region was held, and senior professionals from companies with solid CBE operations in Hong Kong, Shenzhen and Guangzhou were invited as the keynote and panel speakers. Over 50 guests from the relevant government departments, logistics associations and academia participated in the above forum to exchange views on the subject topic. Moreover, the key findings of this research were presented in the Global Public Policy Forum – China’s Globalising City Clusters: The Pearl River Delta Bay Area – organised by the University of Hong Kong in early June 2017. (Please refer to Appendices 1&2).

The outcomes of this public policy research will shed light on the challenges and potentials of Hong Kong as a regional hub for CBE. In this regard, we shall also analyse what policy initiatives and measures are needed to support and facilitate the unique roles of Hong Kong induced by the rapid growth of online retailing within and beyond China.
4. Cross-border e-tailing (CBE)

4.1 Global consumption network (GCN) and retail globalisation

Production and consumption of goods are two sides of the coin in market economy. Existing for a long time, consumption networks consist of circulation systems that either send products and goods to the (individual) consumers for (final) consumption; or provide services, or move to or connect with (individual) people to consume services they demand for. The GCN are constructed for such processes at a global scale. A GCN approach focuses on how geography of consumption is formed and altered by global networks structured by consumer service providers whose goal is to satisfy the needs of consumers through competitive while often tailor-made facilitation. GCN not only follow the consumptions more closely than GPN (global production networks), the changes of GCN may affect the choice and form of GPN as well. While GPN aims at examining production (geography) from a global perspective and focusing on how transnational corporations go global with localisation issues, the term “buyer-driven” in GPN or GVC (global value chain) literature is referred to the power and behaviour of national or international chains of retailers.

In the late 1990s, leading European and US retailers rapidly expanded their networks in the emerging economies of East Asia, Latin America and Central/Eastern Europe mainly through merger and acquisition (M&A) activity (Reardon’s four waves of retail transformation in emerging markets – Reardon 2003, 2005, 2007). The accelerating influx of retail FDI into developing countries was facilitated by the implementation of an array of bilateral and multilateral trade agreements against the backdrop of global trade liberalisation. However, until mid 2000s, retail globalisation has been relatively under-researched in the literature on economic globalisation. In this regard, economic geographers have contributed in examining the characteristics and implications of store expansion and global supply (sourcing) network restructuring derived from the diffusion of transnational retailers (TNCs), and the profound interactions between TNCs and the host economies of the emerging markets.

From a geographical perspective, research on retail globalisation focuses on areas that are sensitive to spatial dynamics. For instance, the implications of retail TNCs’ store network expansion upon sourcing networks, logistical and customer supports, knowledge and technology transfers, exports of branding have been studied (Coe, 2004). Besides, Dawson (2003, 2007), Coe and Wrigley (2007) attempted to scope the contribution on host economy/societal impacts of transnational retail in emerging markets and argued that retail TNCs are “necessarily embedded” and “essentially networked” - they must be responsive and adaptive to local dynamics in terms of cultural preferences and societal norms, while exposing to intense challenges or barriers from indigenous retailers and retail TNCs’ competition, as well as volatile regulatory environment of host countries.

Simultaneously, the emergence of e-commerce (mainly refers to Business-to-Consumer (B2C) e-commerce as Business-to-Business (B2B) e-commerce entails modest impacts only upon the geography of retail supply) adds a new dimension to retail globalisation. While e-tailers would be empowered to serve both national and global markets through the Internet, it brings tremendous and ‘disruptive’ changes to the retail industry by eliminating intermediaries, reducing entry barriers and revolutionising existing retail supply chains. To retail TNCs, e-tailing creates unprecedented opportunities as well as substantial set-up and fulfilment costs, including the continued challenge in territorial embeddedness to accommodate requirements of local markets and difficulties in incorporating new technology into the economic geography
of the firm (Wrigley, N. & Currah, A., 2006). Nevertheless, with the advent of online trade, a multi-channel ‘brick and clicks’ model has become a popular option among traditional brands which can leverage on their branding, customer franchise and present investments in logistics and customer fulfilment to minimize exposure of e-tailing initiatives (Wrigley, 2010). As momentum towards multi-channel retailing continues to intensify, literature revolved around consumer purchase behaviour under multichannel retailing propositions, such as channel loyalty and switching (Dholakia R.R., Zhao, M. & Dholakia, N., 2005) and the challenges posed to retail TNCs in the realm of distribution, including transportation, last mile delivery and inventory systems, increased (Wrigley, N. & Currah, A., 2006; Wang, J.J. & Xiao, Z., 2015).

With the increasing usage of digital channels such as mobile channels and social media, and the integration of these new channels in online and offline retailing, the retail landscape gradually shifts from multi-channel to omni-channel retailing. The latter takes a broader perspective on channels and how shoppers are influenced and move through channels in their search and buying process (Verhoef, Peter C., et al, 2015). Though omni-channel retailing is still at its early development stage in those countries practising CBE, including China, its significant influence on future retail landscape is envisaged. Current studies on its dramatic development tend to be limited, largely relating to the competitive strategies and customer experience of omni-channel retailing (Verhoef, Peter C., et al, 2015; Brynjolfsson, E., Hu, Y. J., Rahman, M. S., 2013).

4.2 Definition of CBE

CBE refers to online purchase activities by consumers from merchants located in other countries and jurisdictions, and the fulfilment of such orders. Since online purchase is completed formally in the selling countries or jurisdictions, the goods bought need to go through procedures of customs clearance. In the e-commerce-based paradigm, some procedures of wholesaling are omitted, and the supply chain can be further simplified and integrated when orders and/or payments (for purchased goods and logistics services) are made through the Internet. In contrast, conventional (B2B) international trade is defined and taken place between exporters and importers or wholesalers/retailers. In view of this virtual difference between B2B and B2C at international level, there are two most notable differences between CBE and conventional trade: (1) CBE is much more fragmented than the conventional trade which is often made in bulk or batch; and (2) most importantly, in the B2B trade, things imported are considered as commercial products while in CBE, they are regarded as ‘personal goods’.

In the realm of GPN, logistics is regarded as one of the “intermediaries” that connects lead firms with their strategic partners, global suppliers and end-consumers – coinciding with other actors such as financial intermediaries that provides credit, information and knowledge services, and intermediaries that establish, enforce and harmonize market standards, protocols and codified knowledge. When increasingly more products do not route through the conventional wholesalers/retailers but go directly to the final consumers’ homes from shops, warehouses or factories in another country, the roles of these intermediaries, including logistics, remain essential though significantly transformed to meet the diverse needs of individual customers. Such transformation formulates the basis of the GCN approach, that is focusing on how geography of consumption is formed and altered by global networks structured by consumer service providers.
As a new and critical means of the GCN, CBE may represent some features of ‘economic globalisation 2.0’ – how products and services, rather than firms, go global, with the support of borderless Internet. While GCN should compose of the circulations of products and goods on the one hand, and the provision of intangible services on the other, we shall focus on the former in this report. This study on the new paradigm of trade will also serve as an important complement to the literature on GPN (Henderson, et al 2002) and global commodity/value chain (Gereffi and Kaplinsky 2001; Gereffi 1994, 1996).

4.3 Special characteristics of CBE

A wide coverage of global products in e-marketplaces and the cost saving in logistics and supply make CBE attractive particularly for buyers who may not be able to obtain the same products domestically or at the same competitive prices, and for sellers who are eager to penetrate international markets. However, e-tailing is not virtually boundless. Basically, CBE carries four essential components to make it work:

1. language-sensitive websites and/or online platforms for marketing, shopping, and related communications;
2. currency-sensitive mechanism for monetary transactions;
3. custom-sensitive channels for cross-border shipment and logistics; and
4. organisational collaboration or integration to warrant the shipment going from every B (business) or C (customer) to every individual C in another country. One additional component is the mechanism for product returns.

As the B2C or C2C deals with C, and internationally the customs of individual countries have different regulations and duties imposed on ‘products’ and personal ‘goods’, where the purchase of product took place is officially recognised as the most important factor affecting the channel of circulation or the handler of logistics chain. Countries involved in CBE tend to have different policies, regulations, and laws for imports, exports and cross-border delivery of personal goods. In view of this, CBE is not only sensitive to these policies, regulations and laws, but also to trade directions. Moreover, CBE is sensitive to product type and not all products are suitable for CBE. For instance, highly luxury products or products for which personal touch of the products is deemed necessary in making buying decisions are less likely to use CBE.

4.4 A conceptual framework: the CBE diamond

We have constructed a general conceptual framework, as seen in Figure 1, which links consumers and suppliers of different countries, retail channel providers (RCP) and logistics services providers (LSP). In China, there are websites and e-marketplaces that play the RCP role, such as AliExpress (速賣通) by Alibaba for overseas market of China products and ‘Light in a box’ (蘭亭集勢) for Chinese to buy overseas products direct. On the LSP side, DHL and TNT are representatives of international express firms while in domestic leg, we see Shunfeng (順豐速運), Yuan tong (圓通速遞) and the like dominating the China market by being the typical delivery services providers. There are other firms that have ‘double identity’, i.e. taking the dual roles as RCP and LSP. They may differentiate from each other on how to combine the two roles. We also notice that within and around LSP or RCP sectors, there are firms
specialised to serve niche markets such as specific route coverage (e.g. China to Russia), special services such as logistics financing, or being a LSP broker (e.g. Top Ideal, 卓志物流).

Figure 1: CBE Diamond

4.5 How retail channel providers (RCP) work for CBE

As seen in Table 1, every category of retail channel in conventional retail can find its counterpart in the e-commerce world, ranging from shopping mall to direct marketing. However, not all channels work effectively for CBE for a few reasons. First, site visits by consumers tend to concentrate heavily on a few locally well-known e-marketplaces. In theory, opening a shop on such e-marketplace websites may have more exposures than in other websites. However, sales volume may depend on constant promotions if the products are not well known. Second, the mode of ‘brand.com’ channel does not work for brands that are less known internationally. Third and most importantly, the effectiveness of individual channels in finding targeted customers is a local matter, varying from country to country or even from city to city.

Table 1: How retail channel providers (RCP) work for CBE
### E-retail Channels

<table>
<thead>
<tr>
<th>E-marketplace</th>
<th>examples</th>
<th>Conventional Retail</th>
<th>examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>E-marketplace</td>
<td>Amazon.com</td>
<td>Shopping mall</td>
<td>Trafford Centre Mall of America</td>
</tr>
<tr>
<td></td>
<td>Tmall.com (天猫)</td>
<td></td>
<td>Wanda mall (万达商城)</td>
</tr>
<tr>
<td></td>
<td>JD.com (京东)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brand.com</td>
<td>LEGO.com</td>
<td>Brand chain stores</td>
<td>Guess</td>
</tr>
<tr>
<td></td>
<td>Longchamp.com</td>
<td></td>
<td>Starbucks Coffee</td>
</tr>
<tr>
<td></td>
<td>Mi.com (小米)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Category e-shop</td>
<td>wayfair.com</td>
<td>Category killers</td>
<td>Home Depot</td>
</tr>
<tr>
<td></td>
<td>qoo10.sg</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Online discount store</td>
<td>Groupon, VIP.com (唯品會)</td>
<td>Discount stores</td>
<td>K-mart</td>
</tr>
<tr>
<td>Mobile direct marketing and MLM</td>
<td>WeChat merchants (微商)</td>
<td>Direct marketing and multilevel marketing</td>
<td>Amway</td>
</tr>
<tr>
<td>Mobile video shows</td>
<td>video marketing</td>
<td>TV marketing</td>
<td></td>
</tr>
<tr>
<td>Website marketing and re-targeting</td>
<td>Category delivery and flyover distribution</td>
<td></td>
<td></td>
</tr>
<tr>
<td>O2O (online to offline or offline to online)</td>
<td>mall.com (美凱龍), Gome (國美), Macy's, Tesco, Uniqlo</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### 4.6 How logistics services providers (LSPs) work for CBE

From a consumer perspective, there are two fundamental limitations for making online purchase of products sold overseas. One is the import control by the national government at home, and the other is transportability regulated by the transporters or related international organisations such as Universal Postal Union (UPU). To consumers, both are hidden on the retailer’s websites. Their choice of products is therefore within these constraints. The attributes of goods they may consider as attractive or competitive to locally made products are:

- scarcity and usefulness (for example, ‘genuine products made in Germany’ that address Mainland customers’ concern in imitated products, particularly childcare or children products);
- overall price, including transportation cost and import duty;
- timeliness (total time from placing order to door-to-door goods delivery); and
- warrant including return policy.

Since the first attribute does not reflect in logistics and the last point may vary significantly in nature among different types of products, we shall focus on price and timeliness in the following discussion on LSP sector. Figure 2 illustrates how CBE products are classified by the two key factors, namely total price and delivery time. Customers who demand short delivery time may choose to pay premium

...
price for using air transportation. Otherwise, delivery time may be compromised with low total cost. The region in blue is the arena for CBE logistics. Ideally, the closer to the bottom-left corner the better, and consumers may consider tradeoff between price and time.

Figure 2: Classification of CBE products by total price and delivery time

Notes
1. Assume that products to be ordered are identical.
2. The two dash lines may not exist, if the same product could not be provided locally or be ordered by conventional channels.
3. The blue region is where competition occurs in CBE logistics. Ideally, the closer to the bottom-left corner, the better, and of course, consumers may consider tradeoff between price and time.
5. CBE Business Models in China

5.1 Overview on CBE development in China

The global B2C e-commerce turnover amounted to US$2,272.7 billion in 2015, representing a year-on-year growth of 19.9%. Asia-Pacific marked a highest share of 46.5% among all regions, followed by North America (28.3%). For the share of individual countries, top 10 countries have accounted for 85.2% of the total sales turnover with China collecting more than one-third of the shares (33.7%) and leading ahead of the USA (26.2%) – and the top two adding up to a high of 60% (Tables 2 and 3).

Table 2: E-commerce turnover of the global regions, 2014-2015

<table>
<thead>
<tr>
<th>Region</th>
<th>2014</th>
<th>2015</th>
<th>Growth*</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>1,895.3</td>
<td>2,272.7</td>
<td>+19.9%</td>
</tr>
<tr>
<td>Asia-Pacific</td>
<td>822.8</td>
<td>1,056.8</td>
<td>+28.4%</td>
</tr>
<tr>
<td>North America</td>
<td>572.5</td>
<td>644.0</td>
<td>+12.5%</td>
</tr>
<tr>
<td>Europe</td>
<td>446.0</td>
<td>505.1</td>
<td>+13.3%</td>
</tr>
<tr>
<td>Latin America</td>
<td>25.8</td>
<td>33.0</td>
<td>+28.0%</td>
</tr>
<tr>
<td>MENA</td>
<td>21.7</td>
<td>25.8</td>
<td>+18.6%</td>
</tr>
</tbody>
</table>

* Growth rate based upon national currencies

Source: Ecommerce Foundation, National Associations and other sources, 2016

Table 3: Top 10 countries in terms of B2C E-commerce sales (2015)

<table>
<thead>
<tr>
<th>Countries</th>
<th>Sales Turnover in US$ billion</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>766.5</td>
<td>33.7%</td>
</tr>
<tr>
<td>USA</td>
<td>595.1</td>
<td>26.2%</td>
</tr>
<tr>
<td>UK</td>
<td>174.2</td>
<td>7.7%</td>
</tr>
<tr>
<td>Japan</td>
<td>114.4</td>
<td>5.0%</td>
</tr>
<tr>
<td>France</td>
<td>71.9</td>
<td>3.2%</td>
</tr>
<tr>
<td>Germany</td>
<td>66.2</td>
<td>2.9%</td>
</tr>
<tr>
<td>South Korea</td>
<td>64.8</td>
<td>2.9%</td>
</tr>
<tr>
<td>Canada</td>
<td>35.7</td>
<td>1.6%</td>
</tr>
<tr>
<td>India</td>
<td>25.5</td>
<td>1.1%</td>
</tr>
<tr>
<td>Russia</td>
<td>22.8</td>
<td>1.0%</td>
</tr>
<tr>
<td><strong>World Total</strong></td>
<td><strong>2,272.7</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source: National Association and Ecommerce Foundation, 2016

At present, official statistics compiled by Chinese government agencies at country or city levels are limited and probably incomplete (e.g. parcels of ‘personal goods’ processed through the
postal system might be underestimated in the CBE statistics). The market size of CBE can only be estimated by looking at enterprise survey data (supply side) or consumer survey data (demand side). Based on the analyses of Ali Research, China’s CBE merchandise trade turnover is highly export-oriented at this juncture. The gross merchandise sales value of China’s cross-border e-commerce trade has increased from RMB0.8 trillion in 2008 to RMB4.8 trillion (or 19.5% of the Chinese total trade turnover) in 2015, with a majority (83.1%) contributed from exports and the balance 16.9% from imports. The total CBE trade turnover in China is expected to further escalate to RMB12 trillion in 2020, registering a CAGR of 20.1% and 37.6% share of total trade (Figure 3).

Focusing on China’s export CBE trade statistics, B2B is the mainstream mode while B2C is of secondary importance, though the proportion of the latter continues to grow in recent years. In 2016, it marked 17.1% as against 82.9% for B2B (Figure 4).

Figure 3: China CBE Turnover (2008 – 2015)

Figure 4: China Export CBE (2008 – 2016)
The findings of iiMedia Research indicated that “beauty products” (43.2%), “maternal and child care products” (41.5%) and “clothing & shoes” (36.1%) are currently the most popular product categories of mobile CBE purchases in China. On the other side, “clothing & shoes” (38.2%), “nutritional & health products” (37.2%) and “travel products” (34.5%) were ranked the top three categories of online goods that consumers are more likely to try or increase patronage. At the same time, we witness higher growth potential for “global food”, “sports & outdoor products” and “digital products & appliances” (Figure 5).

Figure 5: Popular product categories for China Mobile-tailing on 2016

5.2 Two major CBE modes in China

Based on the findings of the in-depth interviews and the secondary data collected through various public media and government organisations, we come to a structured view about the two major modes of CBE and the ways they operate. As China is now one of the most active CBE countries in the world and South China is the most active part of China in this regard, we believe that the study of CBE activities in these three cities shall shed light on the development of this new form of GCN.
We observe that there are two most popular and basic CBE modes in operation in China market: direct posting and B2B4C (business to bonded warehouse for consumers). We shall introduce how the two modes work in two different markets, namely China market of overseas products and the overseas market of Chinese products, and how different firms and cities are engaged.

The first model (see Figure 6) is called ‘direct posting’ mode, which refers to a conventional way of direct shipment – using the postal system with a new e-commerce element: ordering online. Once order is made, the product becomes ‘personal goods’ and shipped often by express delivery firms and/or UPU. Shipments may depart from the warehouse of a CBE firm, or directly from product maker’s factory. To control the entire operation of cross-border delivery, the logistics service provider may wish to program every key step on behalf of the final consumer who is also the owner of the goods. Among all steps, customs clearance is most critical in CBE as it is most sensitive to government policies and regulations. Transportation, on the other hand, may be less sensitive and therefore it is a common practice to contract it out to transport specialists or network service providers such as China Post (for imports to China) or USPS (for exports to USA).

In this mode, there are some variations in operational models. One area is about contracting out of transportation. For ‘asset heavy’ e-retailers, such as JD.com (京東), they tend to use their own local delivery system to cover a few major cities such as Beijing and Guangzhou where they do last-mile services for years. The other option of the model is to externalise local distribution centres/warehouses, particularly to regions of low demand in general. For ‘asset-light’ e-retailers such as Light-in-a-box, they contract out almost every logistics components and focus on what they do best – searching overseas products that best match with the needs of Chinese consumers.

The second model is called B2B4C (see Figure 7). By using bonded warehouse, this mode combines with the conventional trade business for the ‘first mile’ shipment, and put the exported products into certain overseas bonded areas in the destination country before the actual purchase. When final consumers buy online, he or she may buy products already imported in advance. Under such arrangement, from consumers’ perspective, shipment would be much faster and less expensive as the first leg of shipment from overseas suppliers to the bonded warehouse can be made by shipping rather than air transport. While consumer may perceive the B2B4C model to be more attractive, the ‘players’ in this supply chain hold a different view: the prerequisite of players of B2B4C mode is that they must be traders or importers who have the import licenses and are able to ship products cross border into overseas warehouse (to exporter) or bonded warehouse (to importer of the home country). In contrast, CBE firms which opt for the direct posting mode do not deal with any formal procedures of international trade. The only thing they do in this regard is to help overseas buyers declare customs duty for their personal goods.
This implies a hidden but very fundamental difference between the two modes in the organisation of supply chains: in the direct posting mode, e-retailers are helping consumers buy from overseas and collaborate only with logistics service providers who expedite the
delivery; while in the B2B4C mode, traders and importers may join with suppliers to feed products to bonded warehouses for e-retail channel providers to selectively list on their own websites, mobile phone showrooms or even physical showrooms.

Since both modes are relatively new in China-related networks, e-retailers in either mode have been trying to establish their own CBE network if they are the big guys in the market. JD.com, for example, has opened their own warehouses in Korea for controlling the quality of products. For SMEs running this direct posting mode, they look for and rely on out-sourced logistics and network services for almost every single step along the CBE route. According to 4PX, a major LSP specialised in CBE logistics, there are a total of nine steps in the entire CBE process, which correspond exactly to the nine boxes in Figure 6 of Mode One between suppliers and consumers. 4PX provides ‘total solutions’ to carry out all nine steps either by itself or further contracting out; and it provides also partial solutions to accomplish one or a few steps as required by SME e-retailers. The role played by 4PX and AliExpress in direct posting mode is somewhat mirrored by ‘logistics services brokers’ in the B2B4C mode – Dah Chong Hong (大昌行) in Hong Kong, Top-Ideal and Wisepower (WTD, 威時沛運) in Guangzhou. They have either freight-forwarder or trader background, and are now playing a key to bridge traders, suppliers, non-local e-platform operators and e-retailers with Chinese retail channel providers (RCP).

5.3 CBE development in South China gateways

5.3.1 Hong Kong

Research findings

Although Hong Kong has been a well-established international and regional trading and transport hub in Asia, the development of e-commerce and CBE in Hong Kong can be characterised as cautiously slow, particularly when compared with its counterparts in China. In our questionnaire survey conducted in 2016 among 49 local logistics firms, 26.5% were engaging in e-commerce business but none regarded CBE as their core business. Although they considered themselves engaging in e-commerce one way or another, CBE is more likely to be treated as “new add-ons” rather than taking a major role in their business portfolios.

From our interviews, we understand that big logistics companies based in Hong Kong are well prepared to support CBE by providing customised physical infrastructure and information system, and most of them have already had business linkage with large CBE players such as JD and TMall. However, for SMEs that cannot afford the high promotion costs at these mega platforms, they strive to take part in CBE by means of highly targeted segmentation strategies, e.g. concentrating on business of a few gateway ports or making use of social media to recruit target customers and retain their business relationship via follow-up offline promotion events.

Recent surveys conducted by other organisations portrayed similar trends of development of e-commerce in Hong Kong. Findings of a recent survey (KPMG, 2016) suggested that participation of Hong Kong enterprises in CBE has been growing in number and diversity of sectors. However, the scale of investment and degree of involvement are incomparable with their aggressive Mainland counterparts. Large companies, for instance, regarded e-commerce to be taking only a supplementary role to conventional retail business in their market
segmentation strategy. Nevertheless, as most e-commerce players recognised the key role of digital social media (e.g. Facebook or WeChat) in acquiring and retaining e-tailing customers, they ranked ‘establishing a mobile platform’ as a high-priority key for development of e-commerce.

Another survey conducted by the Consumer Council of Hong Kong (2016) examines development of e-commerce from the consumers’ perspective. The study provides insights on what inhibits people to buy online, and the regulatory issues that need to be addressed. Uncertainties related to traders (vendors or agents) and/or products sold online is one of the key reasons deterring consumers to purchase through the Internet, especially for the case of CBE. The report aptly summarised customers’ keen concern and sense of insecurity: ‘unlike shops in the physical world, the location and identity of an online shop is often unclear’ (Consumer Council, 2016). The observation of Consumer Council has been echoed by members of CBE trade associations and some local LSPs in Hong Kong in their interviews with us. They also perceived trustworthiness of vendors, products and e-platforms as the critical point of concern in CBE transactions.

**Reasons for slow pick-up of CBE**

Hong Kong’s marginal engagement in CBE can be attributed to various factors. First, Hong Kong has neither a substantial local market nor a strong industrial base to fuel the growth of CBE whose success relies largely on gaining economies of scale. Besides, Hong Kong’s well-developed and accessible local retail facilities could be another demotivating factor and its free port status has facilitated import of international products at a competitive price. Thirdly, as the logistics sector in Hong Kong at large are already well established and most players are at their maturity stage, their sophistication not only makes them risk averse but also sceptical to the future of CBE and the timeliness of market entry. Last but not the least, their relatively conservative position in CBE engagements is also reflective of the existing constraints in Hong Kong, for instance, the lack of logistics space for space-demanding CBE business and e-commerce talents. The fact that none of the e-commerce giants has chosen Hong Kong as their headquarters/regional offices is therefore not a coincidence.

It is however worth noting that the Hong Kong logistics sector in general perceived CBE to be the highest potential growth area of their sector. In our industry survey, among companies which have not engaged in e-commerce, one quarter intended to start up this new business line, and mostly relating to e-commerce opportunities in China. Companies already engaged in cross-border e-commerce business also expressed a high likelihood for expansion in this business area. PRD Region (87.5%), Hong Kong (75%), China excluding PRD Region (50%) and Europe (47.1%) were the most popular destinations. In other words, they have high hopes for CBE in the coming future.

**Present initiatives**

Various public and private entities in Hong Kong are contributing in enhancing the institutional environment for CBE. Examples include:

1. Hong Kong Post Office (HKPO) has endeavored to enhance the B2C flow between Hong Kong and its neighbours, such as Guangdong. Introduced in 2016, the Guangdong e+ Bundle Solutions is an online service through which mails and parcels heading to designated locations of the Guangdong Province can use the Internet to make customs
declaration and track the status of the clearance process. Efficiency of the customs processes have then been improved significantly, and thereby benefitting CBE business. HKPO also operated its own e-commerce platform, ShopThruPost whereby vendors can sell their products via the online channel.

2. Hong Kong Trade Development Council (HKTDC) has developed its Small Orders Zone which is a buyer-oriented online sourcing platform creating new business opportunities and flexibility for direct sourcing of over 100,000 types of products in small quantity of 5-1,000. Leveraging on the high awareness and reputation of HKTDC among its network of international quality buyers and trade fair visitors and its integrated trade fair and online promotions, the Small Orders website help Hong Kong SMEs exhibit their products to global buyers whose confidence in the vendors is further enhanced by a third-party authentication arrangement. However, these initial initiatives from HKTDC and HKPO are relatively inadequate in terms of service scope and promotional efforts, thereby affecting their overall effectiveness.

3. There are currently different initiatives taken by the trade associations of CBE and some I.T. and support services providers in Hong Kong to address the issue of trader and product authentication in the world of e-commerce. For instance, the Hong Kong Federation of E-Commerce has taken the lead in launching a programme called ‘Hong Kong Trust Mark’. Enjoying international recognition, this scheme sets out a list of quality standards that e merchants must comply with, e.g. assurance of payment and personal data security and order fulfillments. And its continuous monitoring system is another unique feature of this programme.

4. On the other side, GS1 Hong Kong has launched the ‘Hong Kong Trusted Product’ Programme in 2016 with the support of HKPO. This programme aims to enhance the image and branding of Hong Kong registered companies engaged in e-commerce by offering an online traceable information system, which offers consumers convenient access to information of certified products and their vendors. Furthermore, users can build “double trust” with this programme by processing through HKPO’s e-commerce platform, ShopThruPost.

In view of the above, we envisage that one of the competitive edges of Hong Kong in CBE development might be the provision of value-added services for e-commerce that is similar to those of ‘Hong Kong Trust Mark’ or ‘Hong Kong Trusted Product’ schemes, given that Hong Kong is a modern city reputed for delivering high-quality professional services.

5.3.2 Guangzhou

Being the provincial capital of the Guangdong Province and one of the oldest trading windows of China, Guangzhou possesses a strong base of traders, and rich assets in terms of human resources and experience in international trade that can potentially connect China’s manufacturers and end-users on the one hand and overseas customers and suppliers on the other. Guangzhou’s historical traits as a trading city may well justify its unique role in China and global supply chain. Guangzhou’s 13th Five-Year Plan for Commercial Development announced in November 2016 pinpoints the city’s future strategic positioning as an international trade centre heading to become an operating centre for handling global sourcing and order receipts, a distribution centre as well as a key re-exports hub.
Guangzhou’s established and projected position in both imports and exports trade facilitates its comparative prominence in CBE, particularly in the B2B4C mode. As far as China’s imports trade is concerned, the development of Nansha Pilot Free Trade Zone is relatively mature, as compared with Qianhai of Shenzhen. CBE firms have leveraged on Guangzhou’s geographical advantages and technical competence to take up an integrative intermediary role in the global supply chain. Taking the example of Top-Ideal (Figure 8), they claimed that ‘e-warehouses’ in various bonded districts in China are opened by them to help foreign traders or suppliers to put their products there while informing all potential RCP the available stock keeping units (SKUs) in the ‘e-warehouses’. The specialty of Top-ideal and the like is the skillsets in handling border crossing procedures, which may help parties on both sides.

Figure 8 - Main functions of e-warehouse of Top-Ideal

5.3.3 Shenzhen

In comparison with Guangzhou, Shenzhen lacks the historical heritage as a trading centre, domestically and globally. On the contrary, Shenzhen’s high attraction to nationwide calibre and competitive advancement in information technology make its CBE endeavours a somewhat natural and logical choice. According to the Shenzhen Authority, the number of CBE enterprises as of September 2016 has expanded to around 10,000-20,000, or 10-20% of those Shenzhen enterprises with eligibility to conduct international trade. While Shenzhen may appear to be highly aggressive in making their presence in the CBE market, the development of B2B4C in Qianhai Free Trade Zone has consistently failed to achieve scale economies. Instead, the traditional way of exploiting policy loopholes in customs clearance continues to
be the more preferred mode. Shenzhen’s proximity to Hong Kong may be part of the reasons for this outcome as exploitation of various ‘grey channels’ via Hong Kong is physically and economically more viable.

Indeed, Shenzhen has a large export market. To facilitate outbound CBE, 4PX (遞四方), a Shenzhen third party LSP specialised for CBE, established its own global warehouse network (see Figure 9), which match the geography of demands for Chinese products sold through CBE. LSPs of this category, such as 4PX, Yanwen Express (燕文) and WinIT (萬邑通) offer Chinese sellers integrated warehouse-focused supply chain solutions. They themselves at the global scale do not provide physical networks but rely on (1) postal systems such as USPS in the USA, China Post in China, and Singapore Post, and (2) global and regional express companies such as DHL and TNT. What they do is to help Chinese e-tailers, most of them being SMEs, to bid for good rates (“less than DHL”) and speedy delivery (“faster than EMS (express operated by China Post)”) for specific routes and countries. We have monitored since May 2016 the changes of outbound network of AliExpress and its pricing pattern for made-in-China products to be delivered to around world (Figure 10).

Figure 9: Shenzhen 4PX Overseas Warehouses

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>CITY</th>
<th>AREA (m²)</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>Los Angeles</td>
<td>36000</td>
</tr>
<tr>
<td>USA</td>
<td>New York</td>
<td>7000</td>
</tr>
<tr>
<td>UK</td>
<td>London</td>
<td>8000</td>
</tr>
<tr>
<td>UK</td>
<td>Routon</td>
<td>26000</td>
</tr>
<tr>
<td>Canada</td>
<td>Vancouver</td>
<td>3000</td>
</tr>
<tr>
<td>Germany</td>
<td>Bruchsal</td>
<td>9000</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>Příbor</td>
<td>12000</td>
</tr>
<tr>
<td>Spain</td>
<td>Madrid</td>
<td>5000</td>
</tr>
<tr>
<td>China</td>
<td>Hong Kong</td>
<td>5000</td>
</tr>
<tr>
<td>China</td>
<td>Dongguan</td>
<td>30000</td>
</tr>
<tr>
<td>Japan</td>
<td>Osaka</td>
<td>5000</td>
</tr>
<tr>
<td>Japan</td>
<td>Tokyo</td>
<td>5000</td>
</tr>
</tbody>
</table>
5.3.4 Co-operation and competition in South China gateways

Compared with the relatively slow participation of Hong Kong players, LSPs and RCPs in China are aggressively and proactively expanding their markets on both inbound and outbound directions. In 2016, the outbound shipments contributed 80% of the total China-related CBE although the proportion of inbound flows has gone up within five years from less than nine percent in 2011 to near 20 percent.

Our survey has identified some cases where Hong Kong LSPs started to establish their CBE chains with assistance of Mainland LSPs in Guangzhou to launch O2O business there and even in other inland provinces. But when looking into the situation in Hong Kong, Mainland firms tend to establish their own offices and businesses, and little sophisticated co-operation between Mainland firms and Hong Kong firms are found in the formal CBE channels. In the ‘grey’ channels however, a large flow of goods is being carried by individual Hong Kong citizens for border-crossing delivery from Sheung Shui and Fan Ling to Shenzhen. Some LSPs in Hong Kong said that the total volume of goods is about three-times of those gone through formal channels, although the estimation is difficult to confirm. This type of businesses should not be encouraged and long-lasting. However, we were informed that a sharp growth of it appeared since a new regime on CBE announced in April 2016.
5.4 CBE as a policy sensitive business: April 8 New Regime and its impacts

A total of ten cities in China have been designated as ‘pilot cities for CBE’, namely Tianjin, Shanghai Ningbo, Zhengzhou, Guangzhou, Shenzhen, Chongqing, Fuzhou and Pingtan (Figure 11). In March 2016, The Ministry of Finance, General Administration of Customs and State Administration of Taxation of China jointly issued a circular relating to the taxation policy on the cross-border e-commerce retailing imports, with effect from April 8, 2016, which is also known as ‘April 8 New Regime’ (四八新政). Targeting at the cross-border B2C e-commerce, the new taxation policy tends to treat all the relevant retailing imports as commercial goods, i.e., goods under general trade. Compared with personal articles, China Customs applies higher import duty rates and more strict supervision measures to commercial products. However, the Joint Circular sets out an exemption from the 100% customs duty as well as 30% of value added taxes (VAT) and consumption taxes (if applicable) for a single transaction of RMB 2,000 or less falling within an annual quota of RMB 20,000 for each individual buyer in regard to online overseas purchase. Accordingly, even within the prescribed limit, an individual buyer still needs to pay 70% of the VAT and consumption tax (if applicable) for his/her purchase. According to the Joint Circular, for those online purchases beyond the above prescribed limit, buyers must pay the full customs duty, VAT and consumption tax (if applicable) as a matter of general import trade.

Figure 11: Pilot Cities for CBE

However, the above new taxation policy applies only to those online cross-border transactions via e-commerce platforms either connected to the customs system or the associated express carriers or postal offices being able to provide the customs with all electronic data relating to the transactions, payments and logistics (“Official E-Commerce Platforms”). The Customs
Tariff Commission of State Council issued a new nomenclature of import duty rates for personal articles at the entry, with effect also from April 8, 2016. Depending on the types of personal articles, the new nomenclature sets out a 3-level hierarchy for import duty rates, 15%, 30% and 60%. Compared to the previous rates (10%, 20%, 30% and 50%), the Tariff Commission raised the tax burden for personal articles at the entry. For example, the duty rates for foods, beverages, consumer entertainment products, tobaccos, alcohols, luxury products and cosmetics all dramatically increase (Table 4).

Table 4: April 8 New Policy Regime

<table>
<thead>
<tr>
<th>Comparison of Import Tax Policies for Cross-Border E-Commerce Retail Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Maximum value of each transaction</strong></td>
</tr>
<tr>
<td>Rmb1,000</td>
</tr>
<tr>
<td><strong>Annual total for each person</strong></td>
</tr>
<tr>
<td><strong>Purchase of an inseparable item that exceeds the maximum value for single transactions</strong></td>
</tr>
<tr>
<td><strong>Applicable tax rates</strong></td>
</tr>
<tr>
<td><strong>Payable duty of Rmb50 or less</strong></td>
</tr>
</tbody>
</table>

This change from postal articles tax to general import tariff for items through CBE channels have profound implications to China, including:

1. Major channels of CBE are considered as trading channels rather than for posting ‘personal articles’, noting that this is limited to B2C e-platforms set up in China for CBE, not to direct online purchasing from overseas e-tailer websites. It means that those who operate CBE through B2B4C mode are affected most.

2. The effects on these CBE activities in B2B4C mode depend on whether products already in the pipeline (e.g. get stored in bonded warehouses) are subject to the ‘white list’ (Table 5) and level of new import tariff.

3. Chinese consumers need to reconsider their purchase plan, taking account of the annual limit and price offers through various channels.
Table 5: Import tariff rates for entry articles under the white list

<table>
<thead>
<tr>
<th>Tariff category No.</th>
<th>Applicable categories of goods</th>
<th>Tax rate</th>
<th>Tariff category No.</th>
<th>Applicable categories of goods</th>
<th>Tax rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Food, beverages, books and magazines, audio and visual recording tapes, gold and silver products, computers, video recorders, digital cameras</td>
<td>10%</td>
<td>1</td>
<td>Books, magazines, and educational audio-visual products; computers, video recorders and digital cameras; food, beverages; gold and silver; furniture; toys, games, festive and other recreational articles</td>
<td>15%</td>
</tr>
<tr>
<td>2</td>
<td>Textiles, TV cameras, other electrical appliances, bicycles, watches, clocks and their parts and accessories</td>
<td>20%</td>
<td>2</td>
<td>Sports goods (excluding golf clubs and equipment), fishing tackle; textiles and textile products; TV cameras and other electrical appliances; bicycles; other goods not included in 1 and 3</td>
<td>30%</td>
</tr>
<tr>
<td>3</td>
<td>Golf clubs and equipment and high-end watches</td>
<td>30%</td>
<td>3</td>
<td>Tobacco, wine; precious jewellery and jade, golf clubs and equipment; high-end watches; cosmetics</td>
<td>60%</td>
</tr>
<tr>
<td>4</td>
<td>Tobacco, wine and cosmetics</td>
<td>50%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: Items listed under tariff category No. 3 after adjustment falls within the scope of consumption tax.

The negative impact of the new regime was huge within the first 50 days of implementation and it was totally out of government’s expectation. Many firms were reported to have pulled out from the CBE market and some suffered seriously due to goods held in bonded areas of one of the 10 pilot cities (their goods are on the white list and not allowed to sell out through this mode). Eventually, the catastrophic decline of B2B4C businesses has led to the suspension of part of the new policy since the end of May 2016. However, the unexpected outcomes of April 8 policy regime help unfold the special role of Hong Kong in China-related CBE.
6. The Special Roles of Hong Kong

Hong Kong’s special role in the trading city-region of CBE for South China is complementary rather than competitive with other Chinese cities in the region, particularly in the high-end segment. Given Hong Kong’s soft power in trading and social infrastructure such as legal, finance, marketing, language skills and professional services as well as international networking, it should create its unique values and positioning of a premier service hub in the entire global supply chain of CBE by maximising its competitive edges over other Asian cities. Specifically, we have identified three important areas in which Hong Kong could play a significant and unparalleled role.

6.1 Biggest and closest overseas warehouse

Pulling off from the B2B4C mode led an increase of direct purchase and posting from overseas. However, the market quickly found that Hong Kong is the closest ‘overseas warehouse’ that may also play a role of a bonded area next to Mainland China for running the B2B4C mode without taking the risk of policy uncertainty in China. Based on our in-depth interviews among different parties involved in CBE in Hong Kong, the articles that are carried via ‘grey channels’ between Hong Kong and the Mainland are three times that of formal CBE procedures. By playing the role of ‘overseas warehouse’ for overseas and Chinese enterprises, Hong Kong can proactively contribute to the standardisation of China-related cross-border B2C e-commerce activities and the combating of transactions through ‘grey channels’.

6.2 The hub for supportive activities in a market-oriented business environment with international standards

Hong Kong’s independent jurisdiction of free port status not only ensures efficient handling of inbound and outbound cross-border goods, but also facilitates CBE business in many other ways. For instance, Hong Kong can offer all-rounded foreign currency banking services for e-retailers, e-platforms and LSPs in China who want to keep non-RMB payments outside the Mainland, achieve agility in consolidation and distribution for multiple markets in and around Asia-Pacific region, and provide the best Asian air-connectivity to the world. Table 6 lists out Hong Kong’s key competitive advantages in CBE business perceived by the survey respondents.

Table 6: Hong Kong’s competitive advantages in CBE

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Firms with e-commerce business</th>
<th>Firms without e-commerce business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Free port</td>
<td>93.9%</td>
<td>100.0%</td>
<td>91.7%</td>
</tr>
<tr>
<td>Well-established airport and maritime facilities</td>
<td>77.6%</td>
<td>84.6%</td>
<td>75.0%</td>
</tr>
<tr>
<td>Efficient customs service</td>
<td>67.3%</td>
<td>53.8%</td>
<td>72.2%</td>
</tr>
<tr>
<td>Busy routes, air and sea, to and fro world markets</td>
<td>63.3%</td>
<td>76.9%</td>
<td>58.3%</td>
</tr>
<tr>
<td>Simple and transparent government policies</td>
<td>53.1%</td>
<td>46.2%</td>
<td>55.6%</td>
</tr>
</tbody>
</table>

*Base: All respondents (49)*
As a leading trading, transport and telecommunications hub for the Asia-Pacific region and an important financial centre, Hong Kong possesses the qualities and strengths of an ideal offshore platform for Mainland and overseas CBE players, including simple tax and customs structure, transparent and reliable legal system, the most comprehensive range of professional services ranging from accounting and tax advice, arbitration, banking, investment and insurance, conferences and exhibitions. With necessary policy attention and supports, there is reason to believe that Hong Kong can turn into a popular service hub for attracting global CBE key players to establish their key footholds in Hong Kong for meeting business partners, performing foreign exchange transactions, obtaining first-hand market information, publicising their products and services, and making key supply chain decisions and staff training.

6.3 A trustworthy and professional brand

From our interviews, we also discover an intrinsic value of Hong Kong in supporting local companies’ in CBE business – that is, “Hong Kong” itself represents a trustworthy brand. Its image of reliability and professionalism renders products/services from Hong Kong an added value to end-users. In this respect, Hong Kong can offer dynamic value-added services in relation to CBE ranging from vendor and product certification, product traceability to product testing and inspection. The image of a premier servicer will give Hong Kong an extra edge in high-end products.

To capitalise on Hong Kong’s trustworthy and professional branding, we propose to take a three-pronged approach in enhancing consumer confidence in the product quality and authentication relating to CBE:

1. Provide general certification service such as vendor and product certification;
2. Offer professional certification service on specific and special products; and
3. Set quality standards for specific products and perform product inspection for quality assurance.

Specifically, the following initiatives are proposed:

In the short term, it is imperative to maintain effective customised CBE platforms in Hong Kong to help HK-based SMEs enhance their brand awareness and penetrate new markets. It is therefore suggested that HKTDC and HKPO should further enhance their customised CBE platforms by collaborating with other CBE stakeholders such as Hong Kong Quality Assurance Agency (HKQAA) and GS1 Hong Kong and incorporate different authentication services into their e-platforms to achieve greater synergy. For instance, the functions of HKTDC’s Small Orders Zone could be expanded by upgrading their authentication services on special products, such as quality assurance service for wines, child-care products, high-valued dried seafood and bird’s nest to be offered by HKQAA. The ‘Hong Kong Trusted Product’ Programme of GS1 Hong Kong can be another attraction to be incorporated into HKTDC’s e-platform. These new features can help encourage vendors to make use of the CBE platform for selling their products to overseas markets.

In the longer run, certification and inspection of products at the origin countries might be arranged for some high-valued and popular products that require sophistication and high-level of transparency in quality assurance procedures, e.g. high-valued dried seafood and bird’s nest. This aims to address consumers’ concern with food/product quality and safety.
7. Public Policy Implications and Recommendations

We observe that Hong Kong’s logistics sector has a rather consistent view regarding their wish list for supportive policies from the Government. With the rapid development of CBE, some of the “old” problems are becoming more acute while new enhancement requirements specific to e-commerce emerge. Taking into account the feedback of CBE players in Hong Kong and the Mainland, we come up with the following priority areas of policy supports for the consideration of the Government:

1. Government restructuring

As a species of e-commerce, CBE touches upon a wide spectrum of policy areas including commerce, transportation, customs and postal services, while information technology is the tool that make this innovative mode of trade feasible. The complexity and growing importance of CBE deserves and requires a more holistic approach in policy development and implementation specifically relating to e-commerce, and Hong Kong needs a long-term and all-rounded strategy for developing CBE which demands a flexible and inviting business environment conducive to the survival and growth of both large and small players from overseas and local markets. To achieve this, we believe that Commerce and Economic Development Bureau, instead of Innovative and Technology Bureau, will be in the best position to steer e-commerce policy-making in Hong Kong, as the former can tackle the policy issue from the perspective of trade and economic development. Afterall, e-commerce is fundamentally trade-related, and information technology is the means rather than the ends.

Besides, we propose to establish a new statutory body to look after postal services of Hong Kong (including CBE related business) because an independent public entity outside the Government structure will facilitate its reaching out for the ample transnational or business cooperation opportunities provided by the cross-border online retailing boom at a global scale.

2. Land policies

To perform the role of a premier service hub for CBE and China’s ‘closest overseas warehouse’, Hong Kong apparently needs to increase its logistics land expeditiously. The logistics sector reflected that land granted in recent years for logistics purpose tended to be “over-sized”, and failed to meet the practical needs and affordability of SME logistics companies. Instead, it is perceived to be one of the key drivers for high rental rates of logistics space and mounting operational costs. We support the persistent request of the logistics sector for additional land allocated for the development of logistics park, whereby logistics activities can be more concentrated for achieving higher logistic efficiency and cost-effectiveness. Both are critical to gaining business success in the extremely competitive CBE market. To facilitate the sustainable development of CBE in Hong Kong, we further propose to establish a CBE sub-park within the proposed logistics park.
3. **Manpower policies**

The shortage of talents who are familiar with the CBE operations and related cross-border formalities is another major obstacle practically faced by Hong Kong companies when starting up cross-border e-commerce business. This requires clearly defined policy objectives and roadmaps for planning the necessary manpower supports in our tertiary education, professional training and industry-specific promotions. The ultimate aims are to enhance the awareness and understanding of the existing and potential CBE workforce about the essence of the new trading modes and to help them adapt to the new trade paradigm developed along with the CBE boom. In this regard, it would be doubly effective if the Government can work closely with different logistics and CBE business associations in offering large-scale educational as well as publicity initiatives.

4. **New focus of professional services**

As explained in sections 6.2 and 6.3, Hong Kong has strong competitive advantages in providing professional services in relation to CBE. Apart from traditionally strong trade-facilitating professional services including financial and insurance services, trading and transportation, we would recommend to allocate more public resources for supporting the healthy growth of niche industries of certification, product inspection and quality assurance through, for instance, provision of additional research resources.

5. **Strengthening supports of public entities**

Key stakeholders of CBE such as HKPO, HKTDC and HKQAA have been playing crucial roles in enhancing the global supply chain of CBE. As most of CBE prospectors in Hong Kong are likely to be SMEs which may not have abundant capital or versatility in information technology to compete with the leading players, the proactive supports and assistance of these key stakeholders are critical and essential in their pursuance in CBE. We therefore propose to step up the supportive and promotional efforts of related public entities to help consolidate Hong Kong’s important role in global CBE supply chain. The related proposals have been set out in section 6.3.

6. **Information technology supports**

As a by-product of the Internet, CBE relies heavily on IT support throughout the process from order placement to goods parcel delivery. The equipment of logistics systems such as online ordering system or parcel tracking system, is indispensable in improving internal operational efficiency as well as customer satisfaction. Hong Kong companies, particularly SMEs, are relatively weak in this respect and therefore require more educational and technical support to upgrade their overall service propositions. Government and public entities should take the lead in helping SMEs to fill this technology gap.
8. Conclusions

8.1 New CBE modes of circulation are changing the GCN

From a GCN perspective, CBE brings two very different modes that involve different stakeholders as building fabric of GCN. In the mode of direct posting, conventional trade together with their major agents such as trader, importer, regional representatives or even suppliers, are out. Chinese e-retail channel providers contact overseas wholesalers or retailers direct. Chinese LSPs with specialties in cross-border solutions are critical to retailers for bringing the ‘personal articles’ back to China. On the contrary, in the mode of B2B4C, traders, importers, suppliers find their own positions in joining the new form of trade, given that importing overseas products to bonded areas located in a limited number of pilot cities, either in batch or in bulk, needs licenses for each category of trade. In this mode, what foreign suppliers need most is to identify, by themselves or agents, e-channels that sell rather than trying to go with multi-level wholesale-retail hierarchy to set up their own market network in China. That implies that it is foreign brands (products) that attempt to engage and penetrate China market, rather than firms. Today, the e-retail channels are very cultural and thus very local. It seems to us that “Global brands + Local omni-channel” is the way to go for GCN.

8.2 CBE brings pressure and changes to the existing networks

In linking the world market with China, Chinese LSPs rely heavily on the existing transport networks, from postal systems to express couriers. This indicates a development path different from that of the USA, the second largest CBE country after China, where Amazon.com expands its e-marketplace to other countries together with its own warehouses and logistics systems. In the case of China, since the largest e-platform – AliExpress is under Alibaba and does not possess their own physical distribution system, the supporting 3PLs such as 4PX need to stretch out to establish their global networks and integrate with major international express firms and postal systems to serve outbound oriented e-retailers or inbound oriented e-retailers such as VIP International. China Postal and the like are pushed to create new time-sensitive products and integrated by 3PLs with other network providers to serve greater coverage, which is changing the geographies of GCN.

8.3 Hong Kong’s special positioning in GCN

We argue that Hong Kong can take up the special role of a premier service hub in the multi-gateway trading city-region in South China for CBE to serve Asia Pacific and the rest of the world. As China’s only “offshore warehouse” in the Region and the regional hub for comprehensive supportive activities required by CBE trade, Hong Kong can help foreign brands (products) to penetrate the China market while expediting the export of Chinese brands (products) to overseas destinations. Hong Kong should also make use of its reliable and reputable branding and professional service capabilities to add values to the CBE global supply chain. The fulfilment of this special role, however, has a strong reliance on the necessary policy facilitation and supports from the public sector.
Appendix 1

Forum on cross-border e-retailing development in the Pearl River Delta Region
(18 March 2017)

Event Poster at HKU campus

FORUM ON CROSS-BORDER E-RETAILING DEVELOPMENT IN THE PEARL RIVER DELTA REGION

Objectives
The forum aims to facilitate effective views exchanges on the business models of cross-border e-commerce in the PRD Region and the potential roles of Hong Kong, as a regional trade hub, in CBE supply chains, with a view to coming up with useful policy recommendations to the Hong Kong SAR Government.

Keynote speakers
Mr. Jason Feng
Vice General Manager, Global eServices Limited

Mr. Ronald Lee
Deputy General Manager, Enpro Supply Chain Management Limited

Mr. Choio Choi
Consultant, Hong Kong SME Brand Development Association

Panel speakers
Mr. Paul Li
President, Transland Shipping (1971) Group

Mr. Dick Ng
Industry and Solutions Marketing Manager, GSTHK

Dr. James Wong
Department of Geography, HKU

Public policy research sponsored by RGC and CPU, HKSAR government

18 March 2017 (Saturday)
2:00 – 4:45 p.m.
Chamber. 11/F, The Jockey Club Tower, The University of Hong Kong

Cantonese Presentations, English and Chinese for Q and A

Enquiries and registration: yselina@hku.hk
Photos of the event (18 March 2017)

Photo 1: Registration desk

Photo 2: Opening remarks by Dr. James Wang
Photo 3: Over 50 guests attended the forum of 18 March 2017
Photo 4: Panel discussion

Keynote speakers:
- Mr. Jason Feng, Vice General Manager, Globex eServices Limited (left 1)
- Mr. Ronald Lee, Deputy General Manager, Enpro Supply Chain Management Limited (left 2)
- Mr. Chois Choi, Consultant, Hong Kong SME Brand Development Association (left 3)

Panel speakers:
- Mr. Dick Ng, Industry and Solutions Marketing Manager, GS1HK (left 4)
- Mr. Paul Li, President, Transland Shipping (1971) Group (left 5)
- Dr. James Wang, Department of Geography, HKU (left 6)
Photo 5: Discussion and sharing among participants during the tea-break
Appendix 2

Global Public Policy Forum – China’s Globalising City Clusters: The Pearl River Delta Bay Area (1 June 2017)

Photo 1: Group photo of the organiser and the panelists

Photo 2: Presentation by Dr. James Wang
Acknowledgements

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Hong Kong

- E-commerce Association of Hong Kong
- Hongkong Association of Freight Forwarding and Logistics Ltd.
- Hong Kong Courier Association
- Hong Kong Cross-border e-Commerce Association
- Hong Kong General Chamber of Cross-border E-commerce
- Hong Kong Internet & Ecommerce Association
- The Hong Kong Logistics Association
- Hong Kong Netrepreneurs Association
- Hong Kong Post Office
- Hong Kong Sea Transport and Logistics Association
- Hong Kong SME Brand Development Association
- Hong Kong Trade Development Council
- The Chartered Institute of Logistics and Transport in Hong Kong
- The Hong Kong Shippers’ Council

Shenzhen

- China Certification & Inspection Group Shenzhen Co. Ltd. (中國檢驗認證集團深圳有限公司)
- China Post (中國郵政)
- Economic & Information Commission of Guangdong Province (廣東省經濟和信息化委員會)
- Qianhai Authority (前海管理局)
- Shenzhen Cross-Border E-Commerce Association (深圳市跨境電商協會)
- Urban Planning, Land & Resources Commission of Shenzhen Municipality (深圳市規劃和國土資源委員會)
References


