The Chartered Institute of Logistics and Transport

Impact of COVID-19 on Hong Kong's Logistics Industry

The first case of confirmed coronavirus disease (latter termed COVID-19) in Hong Kong was on 23 January 2020. The consequential socio-economic impact was progressively felt in February. By late March, Mr. Angel Gurría, OECD Secretary General, had warned that "the economic shock was already bigger than the financial crisis. It was 'wishful thinking' to believe that countries would bounce back quickly". Fast forward to today, Mr. Gurria's predictive comment continues to hold true. Following is a snapshot of the "realities on the ground" in Hong Kong up to end June 2020.

Impact on logistics sectors

1. Ocean carriers introduced "blank sailings" (cancelled routings) with ferocity and at short notice in April. The huge and sudden reduction in capacity pushed the spot rates up by 25-40% in some trade lanes compared to 2019. The total number of announced blank sailings has now crossed the 500-mark. The blank sailings seem to be plateauing with carriers maintaining their existing capacities and not furthering their large-scale cuts. Nevertheless, the collective reduction in seaborne cargo capacity has created an artificial supply shortage situation where carriers can charge rate premiums for space and equipment protection. Some carriers in the Far East Europe trade had even introduced a GRI (general rate increase) in early June. That is a telling indication of carriers' strategy of opportunistic spot contracts in preference to long-term contracts with customers.

2. Air freighters have witnessed cargo demand outstripping capacity supply due to the upsurge in PPE (personal protection equipment), medical supplies and to a lesser extent, eCommerce shipments. That was exacerbated by the relentless cancellation of "belly cargo carrying capacity" of passenger flights. By the first week of March, 96% of passenger flights ex Hong Kong were suspended. Reportedly, the combined capacities of passenger aircraft belly and chartered air freighters worldwide were 27% lower in May than the same month last year. The resulting shortage of air cargo space had pushed the airfreight rates 2 to 3 times higher than normal times. This stratospheric rate hikes seemed to have stabilised by mid-June; and airfreight cost from Hong Kong to N. America dropped about 12%

week-on-week and to Europe, and by about 13%. Still, the reduced rates were on average 1.4 times higher than the same period last year. Presently, air cargo demand seems to be shifting from urgent PPE to consumer products. But with the threats of trade wars escalating, and a potential second wave of Covid 19 infection in China looming, a continuous period of market volatility is anticipated.

3. Cross-border logistics came to trickles with the continued closure of factories in China post-Chinese New Year. Although the cargo movements and transport of daily necessities were not disrupted by the lockdowns, the reduction in overall demand of general cargo and restriction of cross-border export of PPE had severely hurt the livelihood of cross-border truckers. The feedering sector was of no exception, with close to 40% reduction in total cargo volume in Q1 this year. All operators were left high and dry in their revenue income. No-paid leaves and/or salary reduction have been high on the employers' agenda. Cross-border cargo movement has gradually picked up since April with the factories in S. China measuredly resumed production, but the volumes have been far below the levels of normal times.

4. Urban logistics in Hong Kong, however, has been busy as online shopping has become the norm under the COVID-19 pandemic, and many service providers have switched to light trucks/vans to enhance their service agility in B2B and B2C deliveries, with their service availability handily communicated via crowd sourcing platforms.

5. Freight moved via rail is a missing piece in Hong Kong's logistics deliverables. However, this mode has been heavily utilised in China where general cargo, in addition to PPE and medical supplies, are moved in volumes via the China-Euro Rail to Russia, CIS and Europe at costs that are lower than airfreight and transit time no longer significantly inferior due to the capacity and frequency constrain of the latter mode. The China-Euro rail has thereby provided a viable alternative for Hong Kong enterprises with export manufacturing base in China. While more trains were started in response to upsurge in demand, there have been backlogs built up in Europe which have negatively affected operations in recent weeks.

6. As regards warehousing, space was at a premium when the factories in S. China resumed production to fulfill the overseas orders placed pre-COVID-19 amid reduced air and sea carriage capacities. The export cargo upsurge, however, was short-lived as the stocks eventually found their outlets, and new orders for manufactured goods not forthcoming. Exception has been of eCommerce cargo, local as well as cross-border, which help fill the warehouse space in Hong Kong. Reportedly, the overall diminishing demand in the retail sector has discouraged some suppliers in S. China to stop using the warehouse facilities in Shenzhen for cross-border supply to Hong Kong.

Impact on industry sectors

As logistics is a derived demand from manufacturing and trading, the fortunes of the latter amid the COVID-19 pandemic are relevant to the present study of the situation up to end June 2020.

The disruption of supply chains and the reduced cargo demands exacerbated by national lockdowns on the one hand, and the persistent increase in logistics costs due to fluctuating air and sea carriage capacities on the other have badly hurt the bottom line of all enterprises, and precipitated liquidity problems to many. Only a few industry sectors have been weathering the storm better than others. Following is a snapshot of the situation from the writer’s point of view.

1. Personal Protection Equipment (PPE) and medical supplies
   As China is the world’s biggest manufacturer of medical masks and a major source of medical supplies, this industry sector is one of the few “winners” amid the COVID-19 pandemic. Logistics service providers who have been able to charter air flights and/or secure space, even paying premium rates have profited by the shipment demand. Hong Kong has benefited not by the PPE shipments which are shipped directly ex China, but by the other medical-related materials, including pharmaceuticals.

   The resumption of “belly capacity” by passenger aircrafts is unlikely to be back to the pre-COVID-19 situation. There is the possibility of a new normal in the marketplace with respect to space and rate.

2. Manufacture of automobile accessories and data sensors
   As overseas consignees are generally opting for private rather than public transportation in order to minimise the chances of COVID-19 infection, the manufacturing of automobile accessories for overseas assembly has therefore not been seriously affected. Ditto for the manufacture of data sensors for tracking and tracing movement of people and goods in the pandemic environment.

3. Fast Moving Consumer Goods (FMCGs)
   Daily necessities such as foods and beverages, grocery and pharmaceuticals, toiletries and sanitisers sourced locally or cross-border are the mainstay of the local economy. Overseas imports have been badly affected by supply chain disruption.

4. Non-essential Merchandise
   The apparel industry has been the hardest hit as a result of overseas buyers' order cancellation or re-negotiation for price reduction and/or longer credit periods, while new orders are on hold. As for non-essential consumables, movements have been minimal due to either drastically reduced overseas demand or high logistics costs.

5. Innovation and Technology
   5.1 Home office-related technologies were in high demand in March-April period, but the momentum seems to be slowing as lockdowns gradually ease. IT start-ups, however, have had a bad turn. Reportedly, many tenants at the Hong Kong Science and Technology Park have closed shop due to little business engagement and/or venture capitalists ceasing their funding amid the COVID-19 pandemic. The survivors are exploring niches in process digitisation that can help logistics practitioners enhance their competitiveness. The HKSAR Government recently launched the Distance Business (D-biz) to provide funding to adopt IT solutions for developing distance business. The Program has enticed hundreds of IT specialists to sign up as service providers.

   5.2 The anticipated increase in paperless document flows in many countries will accelerate the demand for smart and digitised logistics going forward.

5.3 As more jobs have been proven possible to be done remotely in our industry, there will be change in the set-up of logistics companies, especially in respect of office demand, with implications for public transport requirement in the future.

6. eCommerce
Online shopping has never been more popular in Hong Kong since the COVID-19 outbreak, with no sign of slowing. This has prompted some eCommerce logistics service providers to expand their business model from offline operation to online marketing. Profitability, however, has been constrained by the fluctuating logistics costs. And cross-border eCommerce is only gradually recovering from the logistics slowdown during the National People's Congress and the Chinese People's Political Consultative Conference period in May.

Prognosis for remainder of the year

The vicious circle of sluggish demand, limited distribution, and restricted supply amid logistics constraints on movement of goods and people is unlikely to be broken any time soon when the COVID-19 pandemic is still infecting people worldwide. Not until an effective anti-COVID-19 vaccine is available for global use, the economic recovery will not be "U" but more likely "L" shaped. And there will be other unthinkable crises in the future.

The Chinese Government has implemented measures to help the logistics industry sail against the strong headwinds. Up to the end of June, port construction fees for exports and imports had been waived, port service and facilities charges reduced by 20%, railway maintenance, container detention and lorries stationary charges halved. The HKSAR Government had provided emergency cash subsidy of HK$200,000 to logistics SMEs. CILTHK in unison with other industry associations and institutes had successfully convinced the HKSAR Government to help employers reduce their staff cost with salary subsidies of max. HKD9,000 per FTE per month for 6 months. For the longer term, strategic re-positioning of supply chains and re-configuration of the supporting logistics enabled by digitisation and AI are called for.

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Many logistics practitioners in Hong Kong will re-position themselves to exploit the opportunities emanated from the anticipated changes in supply chains in the post-COVID-19 world. On the demand side, there will be new logistics opportunities for the S.E. Asia and S. Asia markets where partnership with the local people can provide cost-effective end-to-end service deliverables. On the supply side, synergetic co-operation with industries in the Guangdong-Hong Kong-Macau Greater Bay Area, supported by technologies like Block Chain and robotics, will help improve process efficiency, save cost and ultimately enhance customer experience and business sustainability.

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