

Speech by STH at 2nd Mare Forum Hong Kong 2018 (English only)

Following is the speech by the Secretary for Transport and Housing, Mr Frank Chan Fan, at the 2nd Mare Forum Hong Kong 2018 today (November 21):

Mr Kostoulas (Executive Director, Mare Forum International, Mr Georgios Kostoulas), Mr Bowring (Consultant, Advisor, Arbitrator and Mediator, Bowring Advisory Limited, Mr Arthur Bowring), distinguished guests, ladies and gentlemen,

Good morning. My warmest welcome to all of you to the second Mare Forum Hong Kong, after its debut last year, also during the Hong Kong Maritime Week. The Mare Forum is a renowned and prestigious event, and we are honoured to have so many prominent leaders and players of the industry here with us to share thoughts and insights.

The main theme of today's forum is "renaissance", which is most fascinating when applied to shipping. For one thing, shipping is an age-old industry. Has it undergone a renaissance, or is there one coming?

The Renaissance is often said to be the start of the modern age. To me, it started during the golden age of discovery and the rush for expedition when sea voyaging burgeoned. Global shipping had further reached a new height during the era of industrialisation as raw materials in the globe were traded and transported for manufacture in the West. The tides subsequently turned east and Asia re-emerged with the four rapidly industrialised Tigers in the 1960s, including Hong Kong being one, followed by China's opening up of its market since 1978. China's merchandise trade has since burgeoned and become the "factory of the world" as you all know. The interconnected production network in Asia further spurred regional trade flows. Today, "Factory Asia" manufactures almost half the world's goods and accounts for over half of the world's seaborne trade volume.

Having reviewed the development of global shipping over the past few centuries, we have observed not so much of a renaissance, but a repeat of history with the maritime centre of gravity swinging back and forth between the West and the East.

However, this time is different. Regional and global collaboration at a mega scale is opening a new chapter for global shipping. Among all, the Belt and Road Initiative, which spans over 120 countries and covers more than half of the world's GDP, is expected to swing the East-West pendulum vigorously. With three quarters of the world's population, it is estimated to contribute over 80 per cent of global economic growth by 2050, and that is one of the questions to be asked by the Mare Forum today. New ports are being constructed and old ones rejuvenated in Sri Lanka, Pakistan, Myanmar and Greece, just to mention a few. The improved connectivity has paved the way for a new boom of maritime exchanges for decades to come. With the necessary

infrastructure put in place by foreign investment, the area's growth potential is being unleashed.

Apart from the Belt and Road Initiative, other regional collaborations are set to change the scene of the shipping industry. For example, the new "international land and maritime trade route" is being mapped out. It stems from Chongqing in western China and goes northward to Central Asia and Europe by rail – as of today, there are over 2 000 regular trains set from China to Europe every year – and southward to Guangxi's coastal bay by road and all the way to ASEAN by sea. Just imagine all the goods along the Eurasian corridor that can be consolidated and distributed to different parts of the world through sea routes. With their expertise in cold chain management and inter-modal network, the logistics sector in Hong Kong is ready to seize the opportunities and face the challenges of the booming businesses. Close to home, the Hong Kong-Zhuhai-Macao Bridge that was commissioned last month has pulled together cities within the Greater Bay Area even closer. Just for the weekend, we have 200 000 people crossing the Bridge. These exciting regional collaborations and the rise of inter-modal transport will usher a long-awaited renaissance and bring about revival in the volume of maritime exchanges.

Technology, as Arthur has just mentioned, is another force that promises to revitalise shipping, perhaps in the same way as it has changed many other different facets over the past decades. Internet of Things, blockchain, big data and artificial intelligence have found their way to revolutionise shipping. Big data analytics enables traffic forecast and route optimisation, bringing about efficiency gains. The application of blockchain's distributed ledger technology improves reliability and real-time security of cargo tracking and helps reduce insurance costs. With the Internet, trade single window systems have turned shipping into paperless operation, which again generates cost saving and efficiency gains.

Internet technologies apart, productivity-enhancing automation technologies and the possibility of unmanned navigation are also oncoming. In fact, our terminal operators are increasingly employing automation in their day-to-day operations. For example, our Container Terminal 9 North has already embarked on the use of remote-controlled rubber-tyred gantry cranes and an automated container stacking system launched earlier this year. This will be expanded to other terminals in phases in the years to come. With all these enabling drivers, the future of global shipping is destined to be very fascinating.

Yet, technology brings its own challenges. Reliance on technology comes with a price of higher cybersecurity risks. Meanwhile, new technologies such as 3D printing have enabled manufacture-to-order. Given Industry 4.0, together with micro-production in mega scale, this may affect shipping demand in the longer run due to shorter distance from production to consumption. Renaissance or not, the destiny of global shipping and technology will be inseparable.

With all these potential changes, what will Hong Kong's shipping scene look like in the future? Many of you, including ourselves, are asking. On one

hand, the contribution of the shipping industry in terms of GDP and overall employment in some advanced economies has been declining. For example, Singapore's water transport share in GDP went from 3.1 per cent in 2012 to 2.8 per cent in 2017, while that of the UK's shipping sector went from 0.4 per cent in 2010 to 0.3 per cent in 2015. That said, in terms of global outlook, regional co-operation and technological innovation may spur growth in new markets and unlock new opportunities.

Take for example e-commerce, whose remarkable rise in recent years has implications for global shipping indeed. Last year, global retail e-commerce sales reached a new high of US\$2.3 trillion, up 25 per cent from 2016. While consumers' preference for faster means of delivery may apparently be in favour of air transport, the application of demand forecast technology may empower shipping to give more timely delivery, as popular goods may be shipped well in advance of a placed order. Taking all these into account, unless there is a breakthrough in terms of air transport cost, the bulk of cargoes will still go by sea in the foreseeable future. It can be a win-win situation for both seaborne and other means of transportation.

Turning to Hong Kong, an imminent challenge faced by our shipping sector is the US-China trade conflicts. While the direct impact on our trade remains contained so far, the adverse impact on the global economy outlook has started to emerge – the IMF has already revised the global economic growth forecast for 2018-19 from 3.9 per cent to 3.7 per cent.

Apart from the trade conflicts which we hope will ease and settle in the end, the outlook for the maritime sector remains bright.

Hong Kong has over 150 years of maritime tradition. Our initial success as an entrepot started by riding on Mainland China's opening up of the trade markets. We then repositioned ourselves as a regional transshipment hub amid growing competition. Today, we have moved up the value chain to house a vibrant maritime cluster, with over 800 shipping-related companies offering a broad range of maritime services from ship finance to maritime legal and arbitration services. Our strong base of shipping companies own or manage nearly 10 per cent of the deadweight tonnage of the world's merchant fleet. We are a leading international ship finance centre in Asia, home to seven of the world's top 10 bookrunners on syndicated marine loans. Our arbitration awards are enforceable in over 150 signatory states. We are also well recognised for our institutional strengths including the rule of law, a simple and low tax regime, a business-friendly environment and a level playing field. Hong Kong has been rated as the world's freest economy for 24 years in a row as well as the fourth easiest place to do business according to the World Bank's latest report.

With these cornerstones of our success, Hong Kong will continue to flourish, and we have already come up with a package of initiatives to booster our maritime services. For example, tax measures will be introduced to foster ship leasing business and marine insurance in Hong Kong. Riding on our staunch support for sustainable development of the maritime industry, the Hong Kong Government will inject an additional HK\$200 million into our Maritime and Aviation Training Fund. We shall spare no efforts in striving to

reinforce our position as an international maritime centre.

While we have no crystal ball, we have the brightest minds here today. I am sure everyone here is looking forward to hearing your views and sharing on the renaissance and future development of the global maritime industry. Thank you, and I wish you all a very fruitful discussion.