

# The Development and Countermeasures of Hong Kong E-commerce Industry under the Background of Digital Trade

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**Abstract:** This article explores the development plan and countermeasures for the e-commerce industry in Hong Kong under the background of digital trade. In the digital trade era, Hong Kong's e-commerce industry is a blend of opportunities and challenges, demanding strategic development plans and countermeasures. The industry is witnessing rapid growth, with a market size expected to double from 2019 to 2025, driven by a tech-savvy population and high internet penetration. Major players and local platforms dominate the market, offering a diverse range of products and services. Despite the growth, challenges such as intense competition, consumer privacy concerns, and logistical hurdles due to Hong Kong's unique urban landscape persist. The government's proactive support through policy enhancement, infrastructure development, and talent cultivation is pivotal. The industry's future hinges on adapting to evolving consumer behaviors and leveraging digital advancements, ensuring sustained growth and market relevance.

**Keywords:** Hong Kong, e-commerce, digital trade, development plan

## 1. Introduction

In the era of rapid globalization and burgeoning Internet technology, digital trade has steadily emerged as a pivotal component of global economic activities. Serving as a crucial nexus in this expansive trade network, Hong Kong is strategically positioned to harness the expansive potential of the e-commerce industry. The region's robust infrastructure, strategic geographic location, and the presence of a highly skilled workforce render it an ideal landscape for e-commerce proliferation. However, navigating the intricate landscape of digital trade presents a myriad of challenges and opportunities. As such, the e-commerce sector in Hong Kong must craft meticulous development plans and adopt forward-thinking strategies. This approach is imperative to capitalize on inherent advantages, mitigate potential risks, and foster a sustainable and competitive digital marketplace. By embracing innovation, ensuring cybersecurity, and fostering partnerships, Hong Kong can fortify its stature as a global e-commerce hub and drive the future of digital trade.

## 2. Current Situation of Hong Kong E-commerce Industry

According to data from the Hong Kong Special Administrative Region Government, the scale of the e-commerce market in Hong Kong reached 100 billion Hong Kong dollars in 2019, and is expected to reach 200 billion Hong Kong dollars by 2025. This growth trend will continue as an increasing number of consumers are accustomed to purchasing goods and services through e-commerce platforms. According to a report released by the Hong Kong E-commerce Association, the e-commerce transaction volume in Hong Kong reached 369 billion Hong Kong dollars in 2022, an 8.2% increase from the previous year. The number of online shopping websites has also been increasing year by year, and by the end of 2022, the number of online shopping websites in Hong Kong had exceeded 13,000. In addition, Hong Kong's e-commerce ecosystem is increasingly sophisticated, with effective safeguards in logistics, payment, network security, and other aspects.<sup>[1]</sup>

### 2.1 Rapid Market Growth

The e-commerce market in Hong Kong is experiencing rapid growth, with increasing demand from consumers for online shopping and digital transactions. This burgeoning sector is fueled by a tech-savvy population of over 7 million and a high level of internet penetration, creating a fertile

ground for e-commerce. The city's advanced technological infrastructure and robust logistics systems further augment this growth, making Hong Kong an attractive and dynamic hub for e-commerce development and innovation.

## ***2.2 Key Players***

The e-commerce market in Hong Kong is dominated by major players such as Alibaba's Taobao and Tmall, as well as local platforms like HKTVmall and Goxip. These leading platforms provide an extensive array of products and services, from electronics to fashion, beauty, and food delivery, adeptly meeting the diverse preferences of Hong Kong consumers. Their robust presence, coupled with a commitment to customer satisfaction and technological innovation, significantly contributes to the vibrant and competitive nature of Hong Kong's e-commerce landscape.

## ***2.3 Convenience and Accessibility***

The growth of the e-commerce market in Hong Kong is significantly driven by the convenience and accessibility it offers, catering to consumers with hectic lifestyles and scant time for traditional shopping. For instance, a recent survey indicates that over 60% of Hong Kong residents prefer online platforms for their daily purchases, highlighting the shift from physical stores to digital spaces. Moreover, the rise of mobile shopping has exponentially fueled this growth, as a majority of consumers, around 70%, increasingly use smartphones and tablets to shop on the go, making purchases with just a few taps. This trend is vividly illustrated by the surge in mobile app transactions, underscoring the dynamic evolution of consumer shopping habits in the digital age.

## ***2.4 Cross-border cooperation***

Traditional retailers in Hong Kong have collaborated with e-commerce platforms to achieve online and offline integration. For example, well-known department store Lane Crawford has partnered with multiple e-commerce platforms to introduce its high-end product lines onto the online platforms, expanding its online sales channels. According to data released by Lane Crawford, its online sales have shown strong growth in recent years, with online sales in 2019 increasing by over 30% year-on-year.

## ***2.5 Innovative business models***

Some Hong Kong startups have also demonstrated innovative potential in the e-commerce sector. For instance, emerging e-commerce platforms have started to adopt virtual reality (VR) and augmented reality (AR) technologies to provide consumers with more immersive shopping experiences. According to data from Hong Kong Cyberport, e-commerce platforms employing VR and AR technologies have received positive feedback in the Hong Kong market, attracting the attention of more young consumers.

## ***2.6 Cross-border cooperation***

Hong Kong's e-commerce enterprises have actively engaged in cross-border cooperation with Chinese mainland and international markets. For example, some e-commerce platforms in Hong Kong have collaborated with major e-commerce players in Chinese mainland to expand into the mainland market. According to data from the Hong Kong Trade Development Council (HKTDC), Hong Kong's cross-border e-commerce export value has continued to grow in recent years, reaching approximately HK\$102 billion in 2019, a year-on-year increase of 6.7%.

## ***2.7 Government Support***

In response to the evolving challenges, the Hong Kong government has proactively implemented measures to bolster the city's e-commerce sector. This support encompasses a range of initiatives aimed at fostering digital innovation and entrepreneurship, such as the recent allocation of HK\$500 million towards tech start-ups and digital infrastructure enhancement. Additionally, concerted efforts are being made to refine the regulatory framework for e-commerce businesses, ensuring a fair and secure digital market. For example, the introduction of stricter data protection laws demonstrates the government's commitment to creating a robust environment that supports the sustainable growth of e-commerce, while protecting consumer rights and promoting trust in online transactions.

### 3. Challenges Facing the Hong Kong E-commerce Industry

Despite the significant progress made by the e-commerce industry in Hong Kong, it still faces some challenges. Firstly, the market competition is fierce, and competition between new entrants and existing enterprises may lead to price wars and profit reduction. Secondly, consumers' concerns about privacy and data security are increasing, requiring enhanced network security measures. Additionally, due to the scarcity of land and the high population density in Hong Kong, there are significant challenges in logistics and delivery, necessitating the optimization of the logistics system to improve efficiency and reduce costs.

The challenges facing the e-commerce industry in Hong Kong mainly include the following aspects:

#### 3.1 Relatively small market size

Although the population of Hong Kong exceeds 7 million, the market size is relatively small compared to the vast mainland market, resulting in difficulties for e-commerce enterprises to achieve economies of scale in certain niche areas and increased operating costs.

In 2019, Hong Kong's internet retail sales accounted for 5.7% of the total retail sales, which is more than half below the global average of 13.7%. China leads in online sales revenue with 34.1%, followed by the United Kingdom with online sales making up 21.8% of the total business revenue, and South Korea at 21.6%.

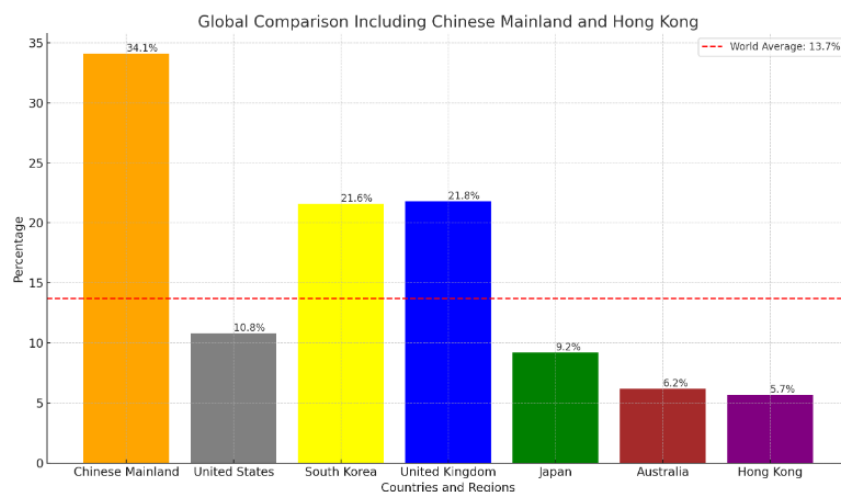


Figure 1: Global comparison including Chinese mainland and Hong Kong

#### 3.2 Fierce competition

Due to the limited market size, the e-commerce market in Hong Kong is exceptionally competitive. According to statistics from the Hong Kong E-commerce Association, by the end of 2022, the number of online shopping websites in Hong Kong had exceeded 13,000. This intense competition compels e-commerce enterprises to relentlessly innovate and enhance product quality and service levels. For instance, many businesses have introduced AI-based customer service and personalized shopping experiences to stand out. A survey by the Hong Kong Retail Management Association indicates that companies investing in such technologies saw a 20% increase in customer retention. This trend underscores the need for e-commerce entities in Hong Kong to not just compete on pricing, but also focus on delivering unique, value-added services to attract and retain a discerning consumer base.

#### 3.3 Consumer concerns about privacy and data security

E-commerce enterprises are increasingly recognizing the necessity to allocate substantial resources to safeguard network security and data privacy. For instance, a report by the Hong Kong Internet Security Alliance revealed that 80% of local e-commerce platforms increased their cybersecurity budgets by at least 30% last year. This investment goes towards advanced encryption technologies,

secure payment gateways, and robust data protection protocols. Moreover, forward-thinking companies are adopting frameworks like the ISO 27001 to manage and protect information assets comprehensively. These measures are not just about mitigating risks; they are crucial in building consumer trust and loyalty, as demonstrated by a study showing that 70% of consumers prefer shopping with platforms that have a strong reputation for data security.

### ***3.4 Difficulty in logistics and delivery***

Due to Hong Kong's scarcity of land and high population density, logistics and delivery present formidable challenges, significantly increasing costs. According to the Hong Kong Logistics Association, logistics expenses in the region are relatively high, representing up to 20% of the total operational costs for e-commerce businesses, starkly contrasting with the global average of around 10%. This substantial financial burden not only elevates operational overhead for businesses but also adversely affects the consumer shopping experience. For instance, a consumer survey revealed that 60% of online shoppers in Hong Kong express dissatisfaction with the protracted delivery times and additional shipping charges, which stem directly from the logistical constraints and high costs associated with operating in such a densely populated urban landscape.

### ***3.5 Lack of a sound supply chain system***

Compared to the mainland, Hong Kong's supply chain system is not yet fully developed, requiring e-commerce enterprises to spend more time and effort organizing sources of goods and logistics transportation. Additionally, due to factors such as Hong Kong's geographical location and political environment, the prices of some goods in the Hong Kong market are relatively high, which also affects the shopping experience of consumers and the development of e-commerce enterprises.

In conclusion, despite facing numerous challenges, the e-commerce industry in Hong Kong is expected to continue to develop and grow as consumer behavior changes and digital technology continues to advance.

## **4. Development Opportunities and Trends in the Context of Digital Trade**

The rise of digital trade has brought new development opportunities to the e-commerce industry in Hong Kong. Firstly, digital trade enables companies to enter the market more quickly and expand their scale. Secondly, digital trade promotes the optimization and integration of supply chains, improving efficiency. Additionally, digital trade provides companies with more opportunities for innovation and personalization to meet the diverse needs of consumers.<sup>[2]</sup>

With the continuous advancement of digital technology and changes in consumer behavior, the e-commerce industry in Hong Kong presents the following development trends:

### ***4.1 Rapid growth of mobile e-commerce***

According to a report from the Hong Kong E-commerce Association, the transaction volume of mobile e-commerce in Hong Kong reached 162 billion Hong Kong dollars in 2022, a 75% increase from 2018, accounting for 44% of the total e-commerce transaction volume. This data indicates that with the popularity of mobile devices and the increasing demand for mobile shopping by consumers, mobile e-commerce is showing a rapid growth trend in the Hong Kong market. According to surveys, 90% of Hong Kong consumers use mobile devices for shopping, with 60% using smartphones for shopping.

### ***4.2 Rise of social e-commerce***

In recent years, social e-commerce has rapidly emerged in the Hong Kong market. According to statistics, the market size of social e-commerce in Hong Kong reached 35 billion Hong Kong dollars in 2022, a 50% increase from 2018. Social e-commerce combines social media with e-commerce, using user relationships and interactions on social media platforms to provide consumers with a more convenient and personalized shopping experience. In the Hong Kong market, social media platforms such as WeChat, Facebook, and Instagram have become common channels for consumer shopping.

#### ***4.3 Flourishing development of cross-border e-commerce***

With the continuous development of globalization and Internet technology, cross-border e-commerce is showing a flourishing trend in the Hong Kong market. According to statistics, the transaction volume of cross-border e-commerce in Hong Kong reached 98 billion Hong Kong dollars in 2022, an 80% increase from 2018. Export cross-border e-commerce dominates, accounting for 80% of the total transaction volume. The development of cross-border e-commerce provides Hong Kong enterprises with a broader market and sales channels, as well as offering consumers more diverse and personalized goods and services.<sup>[3]</sup>

#### ***4.4 Application of artificial intelligence and big data technology***

The application of artificial intelligence and big data technology has become an important trend in the development of the e-commerce industry in Hong Kong. According to surveys, over 90% of e-commerce enterprises in Hong Kong use artificial intelligence technology for data analysis and forecasting to improve sales and operational efficiency. At the same time, the application of big data technology also provides e-commerce enterprises with more accurate and personalized recommendations and services, enhancing consumer satisfaction and loyalty.

#### ***4.5 Rise of green e-commerce***

With the increasing environmental awareness and the growing consumer demand for healthy and environmentally friendly consumption, green e-commerce is gradually rising in the Hong Kong market. According to statistics, the transaction volume of green e-commerce in Hong Kong reached 35 billion Hong Kong dollars in 2022, a 70% increase from 2018. Green e-commerce guides consumers to form green consumption concepts by providing environmentally friendly and healthy goods and services, promoting sustainable development. Additionally, green e-commerce provides new development opportunities and opportunities for business model innovation for Hong Kong enterprises.

### **5. Development Plan and Countermeasures Suggestions**

#### ***5.1 Strengthen policy support and regulation***

The government should increase support for the e-commerce industry, including funding, talent cultivation, and technological research and development. At the same time, it should strengthen regulatory efforts to ensure fair market competition and consumer rights protection. For example, a dedicated e-commerce development fund can be established to support startups and entrepreneurs. Government support can help e-commerce businesses better address the challenges of digital transformation and improve their competitiveness.

#### ***5.2 Enhance the construction of e-commerce infrastructure***

To meet consumers' demands for a fast, secure, and convenient shopping experience, further improvements in e-commerce infrastructure are needed. For example, optimizing the logistics distribution network, strengthening network security, and enhancing the security of payment systems. Optimize the logistics and delivery system to improve delivery efficiency and reduce costs to meet the rapidly growing demands of e-commerce. The government can promote the modernization and automation of the logistics industry to improve efficiency and reduce costs. Enhance cybersecurity measures to protect consumer and business data, enhancing consumer trust in e-commerce. The government can enact stricter cybersecurity regulations and standards, and strengthen cybersecurity supervision and law enforcement.

#### ***5.3 Promote cross-border integration and innovative development***

Encourage e-commerce enterprises to integrate with other industries and promote innovative development. For example, cooperation with enterprises in finance, education, healthcare, and other fields to develop more diverse and personalized products and services. Encourage and support Hong Kong businesses to expand into the mainland and international markets by simplifying cross-border trade processes and providing relevant policy support to promote Hong Kong's cross-border

e-commerce development. The government can provide policy support and trade facilitation measures to reduce the cost and risk of cross-border trade. Encourage companies to invest in innovative technologies such as artificial intelligence, big data analytics, virtual reality, etc., to enhance the user experience and service quality of e-commerce platforms.

#### **5.4 Cultivate professional talents and improve service quality**

The burgeoning e-commerce industry in Hong Kong demands a substantial pool of high-quality talent to drive its growth and innovation. Consequently, there is a pressing need to enhance the training and development of e-commerce professionals, aiming to elevate their professional competence and service quality. Initiatives such as specialized training courses and comprehensive internship programs are instrumental in this regard. For instance, leading universities and industry associations have launched collaborative programs, witnessing a 40% increase in enrollment over the past year, reflecting the growing interest and recognition of the importance of skilled e-commerce personnel. These programs, often designed in partnership with major e-commerce platforms, offer hands-on experience and industry insights, thereby nurturing a new generation of e-commerce experts who are well-equipped to meet the dynamic demands of the digital marketplace and contribute significantly to the industry's sustained growth and excellence in service.

### **6. Conclusion and Prospects**

In the context of digital trade, the e-commerce industry in Hong Kong faces numerous challenges and opportunities. To better respond to market changes and consumer demands, e-commerce enterprises need to formulate scientific and reasonable development plans and take effective countermeasures. In the future, with the continuous advancement of digital technology and the ongoing changes in consumer behavior, the e-commerce industry in Hong Kong will continue to maintain a rapid development trend and achieve higher efficiency and quality.

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