

10 Denim Products Trade

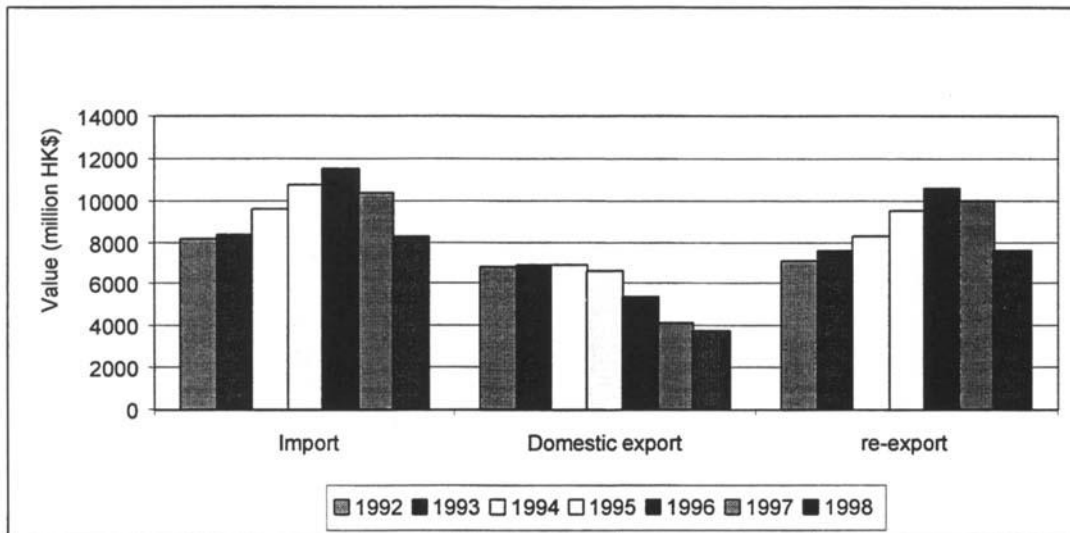
10.1 INTRODUCTION

Hong Kong is an important textile and clothing exporter. It was the second most important garment exporter in the world and the leading textile exporter in 1998 [1] [2]. Against the strong background of its textile and clothing industries, Hong Kong has played an important role in the world denim trade. In 1997, in the world's two largest denim markets, Hong Kong was the second largest exporter in the U.S. market just after Mexico, and was the fourth most important exporter in the EU market, after Tunisia, US, and Turkey.

The Hong Kong denim trade can be divided into three sectors- imports, domestic exports, and re-exports. The imports market includes all the denim products imported into Hong Kong. Domestic exports mean export products manufactured/processed in Hong Kong itself. Re-exports are the export products previously imported into Hong Kong and which are re-exported without having undergone in Hong Kong a manufacturing process. By analyzing the three sectors, Hong Kong's performance as a trading hub can be carried out.

Figure 10.1 indicates the status of the Hong Kong denim trade between 1992 and 1998. Hong Kong was an important importer for denim products. Before 1997, imports expanded at a rate of 10.2 per cent per year on average, as Hong Kong imported denim products increased from HK\$ 8.2 billion worth in 1992 to a peak in 1996 with HK\$ 11.5 billion. However, influenced by the recession in the Hong Kong economy and lackluster consumer spending, both denim fabric and denim apparel imports declined in 1997 and 1998. After a 9.7 per cent decline in 1997, Hong Kong's total imports of denim products dropped by 20.6 per cent in 1998.

Because Hong Kong is a clothing manufacturing base, denim fabric had an important role in Hong Kong's total denim product imports, and comprised around 70 per cent of the total imports. Denim clothing was not as important as denim fabric, because its domestic market size was not very large.



10.1 Hong Kong denim products trade

Between 1992 and 1995, Hong Kong's domestic exports to its major markets were steady and the export value was kept at around HK\$ 6.8 billion. After 1995, Hong Kong the exports of denim products shrank in its US, United Kingdom, and German markets, which were the most important overseas markets for Hong Kong. Hong Kong's exports dropped by 19.4 per cent in 1996 23.5 per cent in 1998 and 8.7 per cent in 1998. In 1998, Hong Kong's export decline continued, because it's most important market, the Chinese Mainland, declined by 15.6 per cent. On the other hand, other major markets, such as the United Kingdom and the US, rebounded in the same year. In detail, Hong Kong's denim apparel sector was healthier than denim fabric's, for its domestic exports grew by 2.3 per cent in 1998 compared with the reduction of 17.6 per cent in denim fabric exports. Hong Kong's denim fabric was getting more important to Hong Kong domestic exports; it contributed 41.2 per cent of Hong Kong's exports in 1992 and became 49.8 per cent in 1998.

Between 1992 and 1997, the unfavorable balance of Hong Kong denim product trade increased; what was HK\$ 1.3 billion in 1992 became HK\$ 6.3 billion in 1997. Hong Kong was a denim product importer rather than an exporter, and was losing it importance as a world denim product manufacturing base. The weak Hong Kong domestic economy in 1998 caused the Hong Kong denim import market to shrink, and consequently the unfavorable balance was reduced to HK\$ 4.5 billion in 1998.

As a trading hub, re-exports were very important for the Hong Kong economy. So they were to denim trading. HK\$ 7.1 billion worth of denim products were re-exported through Hong Kong in 1992. The value escalated by an annual 12.4 per cent and peaked in 1996 with a value of HK\$ 10.6 billion. However, because of the Asian financial crisis, Hong Kong denim product re-exports fell rapidly, and dropped by 23.7 per cent in 1998 after a 5.6 per cent decrease in 1997. There were HK\$ 7.6 billion of denim products re-exported through Hong Kong in 1998.

With the closer link with the China Mainland in both economy and trade, the Chinese Mainland has become the most important trading partner of Hong Kong. The Mainland is not only the leading supplier for Hong Kong imports and the leading importer for Hong Kong domestic exports, but also the most important market and origin for Hong Kong re-exports.

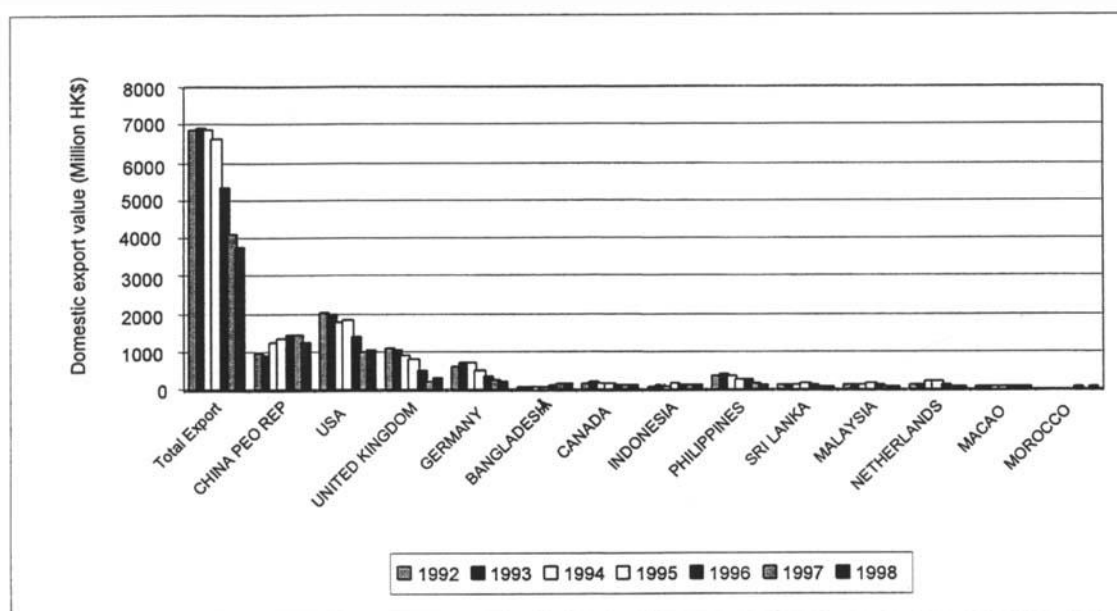
10.2 EXPORTS

10.2.1 Introduction

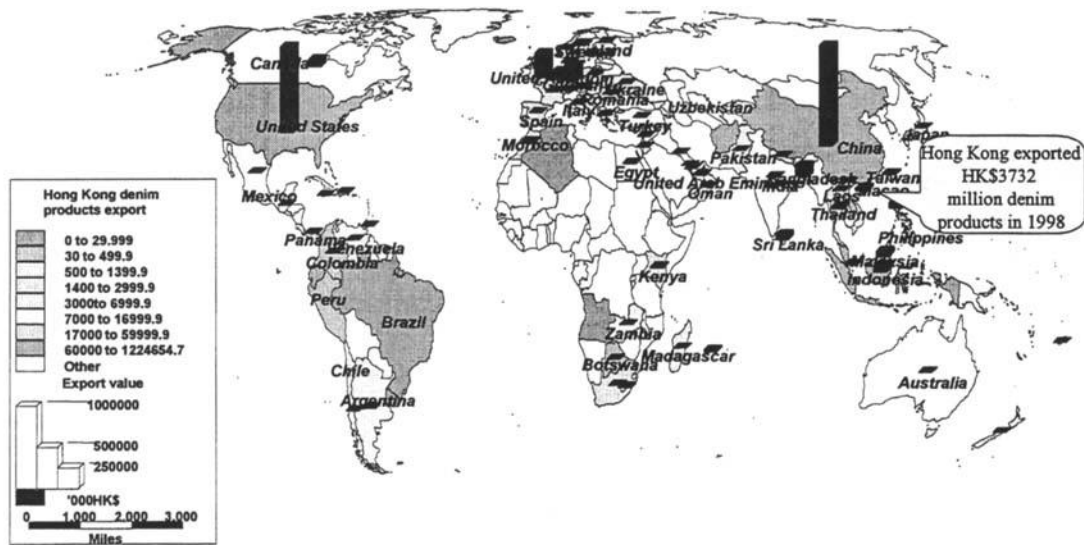
Hong Kong, as the second most important supplier in the U.S. market and the fourth largest non-EU supplier in the EU market, has played an important role in international denim trade. It exported (including domestic exports and re-exports) HK\$ 13.9 billion worth of denim products in 1992. Domestic exports accounted for 49.2 per cent of denim products total exports, and the rest was re-exporting. Between 1992 and 1994, Hong Kong's domestic exports were steady. However, they reduced from 1995 onwards, and the export value became HK\$ 3.7 billion in 1998, accounting for 32.9 per cent of total exports. Re-exports grew by 12.4 per cent per year on average between 1992 and 1996, and peaked in 1996 with HK\$ 10.6 billion. In 1997 and 1998, Hong Kong denim product re-exports fell by 5.6 per cent and 23.7 per cent; Hong Kong re-exported HK\$ 7.6 billion worth of denim products in 1998, 67.1 per cent of Hong Kong total denim exports.

10.2.2 Domestic exports

Before 1994, Hong Kong denim products domestic exports were fairly steady; about HK\$ 6.8 billion worth of domestic denim products were exported from Hong Kong every year. After 1995, with the trend to factories offshore, the Hong Kong domestic



10.2 Hong Kong denim products domestic exports



10.3 Hong Kong denim products domestic exports by markets

manufacturing size reduced, and Hong Kong's domestic exports declined. Between 1995 and 1997, the rate of decline increased from 3.3 per cent in 1995 to 19.4, and 23.5 per cent in 1996, and 1997 respectively, and recovered to 8.7 per cent in 1998. In 1998, Hong Kong's domestic export value was just HK\$ 3.7 billion. This fall was mainly caused by the influence of the Asian Turmoil, when many Asian countries devalued their currency to stimulate export. However, Hong Kong currency was kept steady as it was linked with the U.S. dollar. This brought big pressure to domestic textile export, and hence to denim apparel exports.

In 1998, Hong Kong domestic export fell in most of its major overseas markets except the United Kingdom and the U.S. In the three most important domestic export markets, Hong Kong domestic exports to the Chinese Mainland dropped 15.6 per cent in 1998, after several years of growth. In the U.S. and United Kingdom markets, Hong Kong domestic exports rebounded by 4.4 and 57.5 per cent in 1998 after sharply falling in 1997 and 1996.

The Chinese Mainland was the most important denim products consumer for Hong Kong in 1998, and imported 32.8 per cent of Hong Kong total denim products domestic exports. It also was the fastest growing market in that the imports from Hong Kong increased by 5.0 per cent per year on average between 1992 and 1998. With a growth rate of 14.8 per cent each year, Hong Kong's domestic exports to the Chinese Mainland increased from HK\$ 944 million in 1992 to HK\$ 1.5 billion in 1997. Because of the Chinese Mainland's lucrative consumer market, low-cost structure and proximity in culture and geography, it is the favorite place for Hong Kong manufacturers to set up overseas plants. A big part of Hong Kong's exports to China Mainland is for outward processing. This is one factor that caused Hong Kong domestic exports to China to increase [3]. On the other hand, the steady increase in the Chinese Mainland's household income and demand for a better quality of life also helped to stimulate the export of Hong Kong denim products to the Chinese Mainland. Because a big part of Hong Kong's exports to the Chinese Mainland was for outward processing, the slowdown in overseas markets was expected to drag down

Hong Kong's exports to the Chinese Mainland in 1998, and Hong Kong domestic exports to the Chinese Mainland decreased to HK\$ 1.2 billion.

Before 1996, the most important market for Hong Kong was the U.S., who imported HK\$ 2.0 billion worth of denim products each year, accounting for 29.4 per cent of Hong Kong domestic exports in 1992. Hong Kong domestic exports to the US declined later. To protect its domestic market, the U.S. made rules and regulations to restrict denim products from other countries. From mid June 1996, Hong Kong clothing exports to the US were affected by trade disputes over illegal transshipments and the implementation of new rules of origin and additional import documentation requirements of selected Hong Kong clothing products [3]. U.S. imports of denim products were greatly reduced in 1996 and 1997. However, US imports rebounded 4.4 per cent in 1998, and it imported HK\$ 1.0 billion worth of denim products from Hong Kong, though compared with the value in 1992 (HK\$ 2.0 billion), it was still relatively low. The U.S. accounted for 28.1 per cent of Hong Kong exports of domestic denim products in 1998 as the second most important consumer.

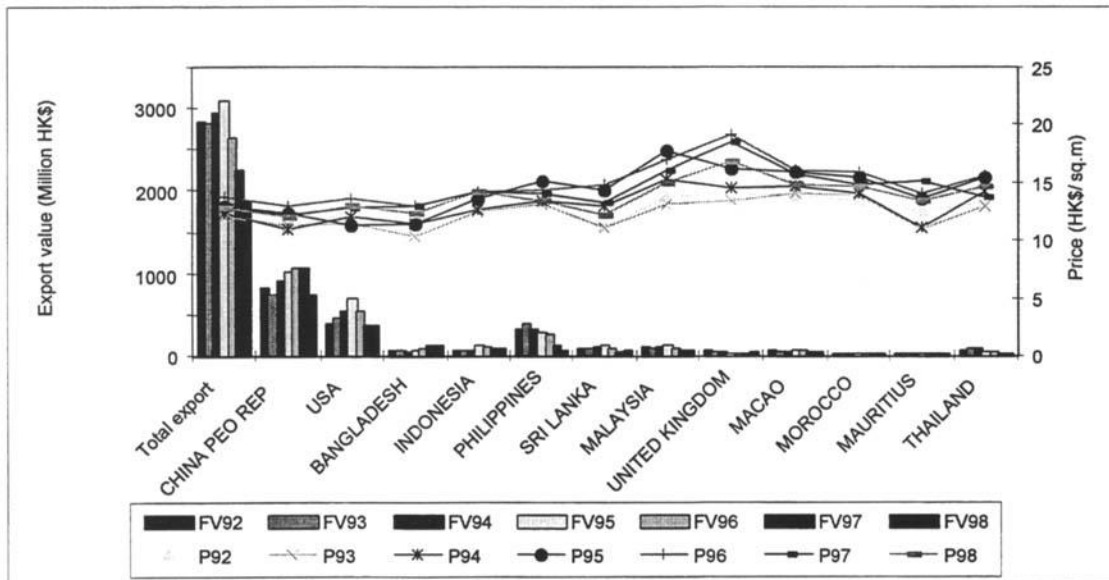
The United Kingdom was the third most important market for Hong Kong domestic exports in the recent years. In 1992 and 1993 the United Kingdom was the second most important consumer for Hong Kong denim products after the U.S. At an average declining rate of 16.5 per cent, the value of domestic exports to the United Kingdom reduced from 1.1 billion in 1992 to HK\$ 187 million in 1997. In 1998, the value of domestic export to United Kingdom rebounded by 57.5 per cent, and became HK\$ 294 million, accounting for 7.9 per cent of Hong Kong domestic exports.

Other major markets for Hong Kong denim products were Germany, who accounted for 5.1% of Hong Kong domestic export, Bangladesh (3.7%), Canada (2.4%), Indonesia (2.1%), Philippines (2.0%), Sri Lanka (1.8%), Malaysia (1.7%) and Netherlands (1.4%) in 1998.

Denim fabric exports

Denim fabric is regarded as a capital intensive industry rather than a labor intensive one. Comparing with the denim apparel sector, the high labor costs in Hong Kong influence the denim fabric sector relatively little. Denim fabric exports played a more and more important role in Hong Kong domestic exports and in the years between 1992 and 1998, denim fabric contributed 41.2 per cent of Hong Kong's total domestic exports in 1992 rising to 49.8 per cent in 1998. (See Fig. 10.4)

In 1992, HK\$ 2.8 billion worth of denim fabric was exported from Hong Kong. In the next three years, the export value increased and peaked in 1995 with a value of HK\$ 3.1 billion. However, the value of exports reduced to HK\$ 1.9 billion in 1998. Although the value of domestic exports of denim fabric decreased, denim fabric exports became as important as denim apparel to Hong Kong denim product exports. Influenced by weak market demands in 1998, Hong Kong denim fabric exports shrunk more slowly in most major overseas markets except the Chinese Mainland. (See Fig. 10.4)



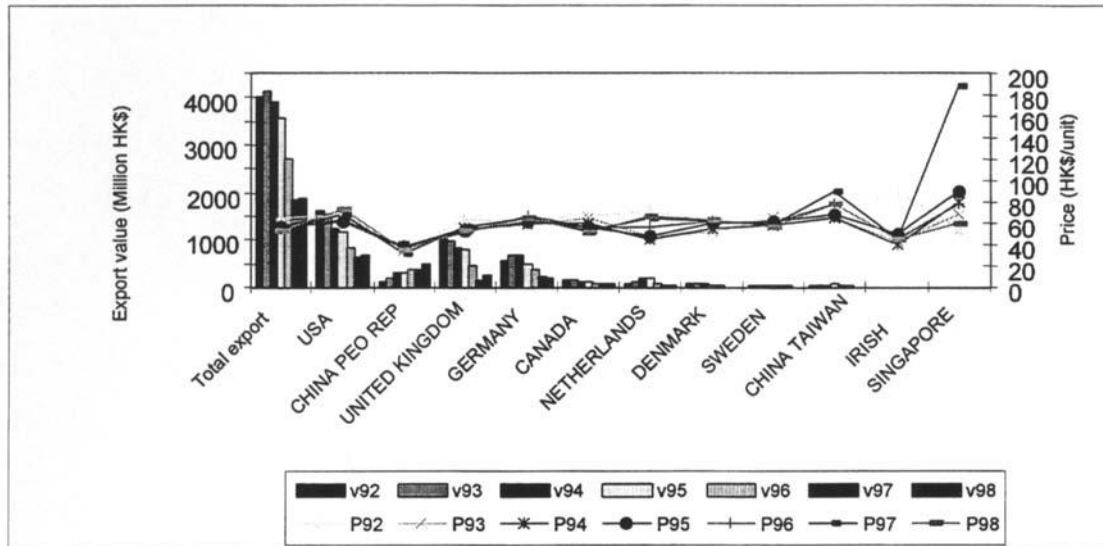
10.4 Hong Kong denim fabric domestic exports
Adapted from Hong Kong Census and Statistics Department (1999)

The Chinese Mainland has become the most important market for Hong Kong denim fabric, as more Hong Kong companies shift their manufacturing factories there to utilize the lower labor costs to process denim apparel. As a processing base, the Chinese Mainland denim fabric imports from Hong Kong grew by 4.9 per cent every year on average between 1992 and 1997. The Chinese Mainland absorbed 47.2 per cent of Hong Kong's domestic exported denim fabric (HK\$ 1.1 billion). However, because of the overall Hong Kong domestic export recession, denim fabric exports to the Chinese Mainland dropped by 30.4 per cent in 1998 when HK\$ 741 million worth of denim fabric (39.9 per cent of Hong Kong domestic export) was exported there. (See Fig. 10.4)

The second most important market after the Chinese Mainland was the U.S. Although an important denim fabric producer, the US also imports denim fabric from Hong Kong. Hong Kong's denim fabric exports to the U.S. peaked in 1995 with HK\$ 687 million, then dropped by 22.0%, 30.1% and 3.6% in 1996, 1997 and 1998 respectively. The U.S. imported HK\$ 362 million worth of Hong Kong denim fabric, contributing 19.5% of Hong Kong's domestic exports in 1998. (See Fig. 10.4)

Bangladesh, which imported 7.3% of Hong Kong denim fabric domestic exports in 1998, was the third most important denim fabric market for Hong Kong. The Bangladesh's market grew from HK\$ 57 million in 1992 to HK\$ 136 million 1998, making it a fast growing market for Hong Kong. (See Fig. 10.4)

The above mentioned countries were the three most important consumers for Hong Kong denim fabric and captured 66.6% of Hong Kong denim fabric domestic exports. The price of Hong Kong denim fabric exports was at HK\$ 12.0 to 13.8 per square metre in the investigation period. The price gap between different markets was not large. (See Fig. 10.4)



10.5 Hong Kong denim apparel domestic exports
Adapted from Hong Kong Census and Statistics Department (1999)

Denim apparel exports

As a world famous denim apparel manufacturing base, Hong Kong exported HK\$ 4.0 billion worth of denim apparel, or 58.8 per cent of the total Hong Kong domestic exports of denim products in 1992. The export value declined on average by 10.9 per cent every year, to become HK\$ 1.83 billion in 1997. In 1998, after years declining, Hong Kong denim apparel export rebounded by 2.3 per cent, exported HK\$ 1.87 billion worth denim apparel was exported, accounting for 50.2 per cent of Hong Kong domestic exports. While the denim fabric sector still suffered from the weak overseas market and Hong Kong economy, Hong Kong's domestic denim apparel exports were competitive with respect to workmanship, flexibility, responsiveness and sensitivity to fashion trends, and thus recovered faster than the fabrics sector. (See Fig. 10.5)

The most important market for Hong Kong denim apparel was the U.S., which imported HK\$ 1.6 billion worth of denim apparel in 1992, accounting for 40.3 per cent of Hong Kong's exports. However, between 1992 and 1997, U.S. imports from Hong Kong declined, especially after 1993. In 1997, U.S. imported only HK\$ 629 million worth of denim apparel from Hong Kong. Although the Hong Kong export to US recovered by 9.1% in 1998, there was just HK\$ 686 million worth of denim apparel exported to US contributing 25.8 per cent of Hong Kong denim apparel domestic exports. (See Fig. 10.4)

Another important market for Hong Kong denim apparel was the Chinese Mainland, which grew from HK\$ 120 million in 1992 to HK\$ 483 million in 1998. Mainland China shared 25.8 per cent of Hong Kong's exported denim apparel in 1998; comparing this with 1992 (when it shared 3.0 per cent of Hong Kong denim apparel exports), it was getting more important to Hong Kong. However, the market size of the Chinese Mainland was small compared with the U.S., the leading foreign market, and the U.S. still played an important role in Hong Kong domestic denim apparel exports. (See Fig. 10.5)

The United Kingdom imported 13.5 per cent of Hong Kong denim apparel exports, and was the third most important market for Hong Kong in 1998. Hong

Kong's exports to the United Kingdom declined from HK\$ 999 million in 1992 to HK\$ 158 million in 1997, but 1998 was a good year for Hong Kong exports to the United Kingdom, when HK\$ 252 million worth of denim apparel was exported to the United Kingdom a rise of 59.4 per cent, after shrinking for six years. (See Fig. 10.5)

Germany shared 10.3 per cent of Hong Kong denim apparel exports in 1998. Germany's imported value declined from HK\$ 567 million in 1992 to HK\$ 192 million in 1998. However, this reduction of imports slowed down to 13.5 per cent in 1998 from 39.0 per cent in 1997. (See Fig. 10.5)

In 1998, Canada and Netherlands contributed 3.7 and 2.8 per cent of Hong Kong denim apparel exports. Denmark shared 0.9 per cent of Hong Kong export, Sweden 0.8 per cent, China Taiwan 0.7per cent, Ireland 0.7per cent, and Singapore 0.6per cent in 1998. (See Fig. 10.5)

The average price of Hong Kong export denim apparel was HK\$ 65.1 per unit in 1992. Between 1992 and 1998, the price decreased year by year, and the average price of Hong Kong domestic exported denim apparel became HK\$ 53.9 per unit in 1998. The reason for this price decrease was that more and more lower price denim apparel was exported to the Chinese Mainland, and the contribution of the higher price denim apparel markets contributed less to Hong Kong domestic apparel exports. (See Fig. 10.5)

10.3 RE-EXPORTS⁴

As a trade hub in Asia, re-exporting is an important activity for the Hong Kong economy. To describe the status of Hong Kong denim product re-exports, two aspects should be studied. The first is via an analysis of the Hong Kong re-export target market to get to know the Hong Kong major re-export market consumers and their characters. The second is via an analysis of the origin of Hong Kong re-exports to understand the suppliers of them.

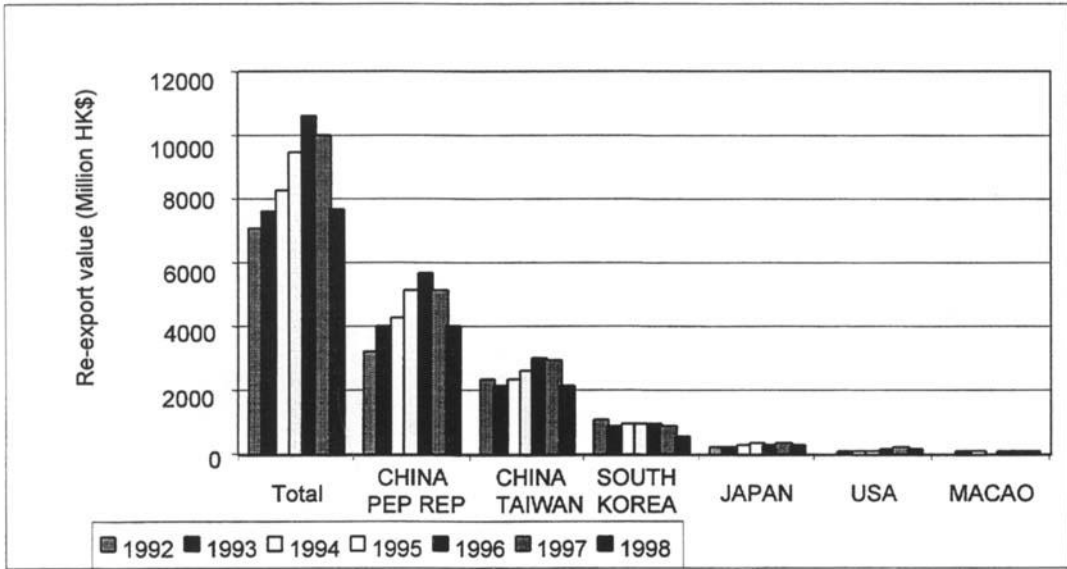
The peak of Hong Kong denim product re-exports occurred in 1996 with the value of HK\$ 10.6 billion. Between 1992 and 1996, with an average growth rate of 9.9 per cent per year on average, Hong Kong's re-exports increased from HK\$ 7.1 billion in 1992 to HK\$ 10.6 billion in 1996. However, the value reduced in 1997 and 1998, and was HK\$ 7.6 billion in 1998.

Re-exports contributed 50.8 per cent of Hong Kong's total exports in 1992, and it became more and more important to Hong Kong in the next few years. In 1998, re-exports shared 67.1 per cent of Hong Kong total exports.

10.3.1 Re-export by origin

The important origins of Hong Kong denim product re-exports were the Chinese Mainland, China Taiwan, South Korea, Japan, the U.S. and Macao. From 1992 to 1998, these countries (areas) supplied around 95 per cent of Hong Kong re-exported denim products. (See Fig. 10.6 and 10.7)

⁴ Definition of a Hong Kong Re-export is a product which has previously been imported into Hong Kong and which is re-exported without having undergone in Hong Kong a manufacturing process which has changed permanently the shape, nature, form or utility of the product (TDC).



10.6 Hong Kong denim products re-exports by origin
Adapted from Hong Kong Census and Statistics Department (1999)



10.7 Hong Kong denim products re-exports by origin
Adapted from Hong Kong Census and Statistics Department (1999)

Among these suppliers, the Chinese Mainland was the most important origin, supplying 52.5 per cent of Hong Kong's re-exported denim products in 1998. The Chinese Mainland supplied HK\$ 3.2 billion worth of denim products for Hong Kong re-export in 1992. With an average growing rate of 15.8 per cent per year, the value became HK\$ 5.7 billion in 1996. After 1996, the value reduced by 16.3 per cent per year and became HK\$ 4.0 billion in 1998.

The second most important supplier, China Taiwan, supplied 28.3 per cent of Hong Kong's re-exports in 1998. It supplied HK\$ 2.3 billion worth of denim products to Hong Kong for re-export in 1992, peaked in 1996 with HK\$ 3.0 billion, but in 1998 the value Hong Kong re-exported from China Taiwan was down to HK\$ 2.2 billion.

South Korea was the third most important source of Hong Kong denim product re-exports. South Korea supplied HK\$ 536 million worth of denim products to Hong Kong for re-export in 1998, accounting for 7.0 per cent of Hong Kong's re-exports. Before 1996, South Korea supplied HK\$ 900~1000 million worth of denim products to Hong Kong for re-export per year. The value fell sharply in 1997 and 1998.

Japan and the U.S. supplied 3.9 and 2.0 per cent of Hong Kong re-exports respectively. Japan supplied HK\$ 298 million to Hong Kong for re-export, while HK\$ 153 million worth of was from the U.S., in 1998. Macao supplied HK\$ 70 million worth of denim products, accounting for 0.9 per cent of Hong Kong re-exports.

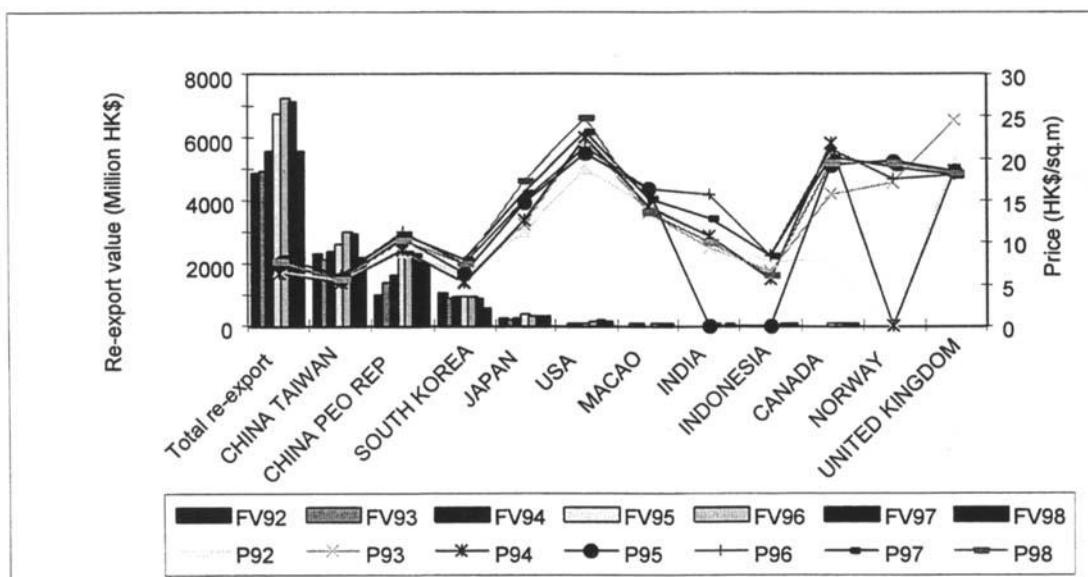
The six countries (areas) above supplied about 95 per cent of Hong Kong re-exported denim products for each year between 1992 and 1998.

Denim fabric re-exports by origin

Hong Kong re-exported denim products were mainly sourced from surrounding countries (areas), such as China Taiwan, Mainland China, South Korea, Japan, Macao, India, and Indonesia. China Taiwan was the most important source for Hong Kong denim fabric re-exports. It supplied HK\$ 3.0 billion worth of denim fabric to Hong Kong for re-export in 1996, which was the peak between 1992 and 1998. In 1998, HK\$ 2.2 worth of denim fabric from China Taiwan, accounted for 38.9 per cent of Hong Kong denim fabric re-exports.

Denim fabric from the Chinese Mainland peaked in 1995 with HK\$ 2.4 billion worth, Mainland China supplied HK\$ 2.0 billion, or 35.8 per cent of Hong Kong re-exports to denim fabric in 1998, and was the second most important origin of Hong Kong re-exported denim fabric. (See Fig. 10.8)

Hong Kong re-exported denim fabric from South Korea has decreased in the past few years. With an average annual decreasing rate of 8.1 per cent, denim fabric from South Korea fell from HK\$ 1.0 billion in 1992 to HK\$ 535 million in 1998, and then contributed 9.6 per cent of Hong Kong re-exported denim fabric.



10.8 Hong Kong denim fabric re-exports by origin
Adapted from Hong Kong Census and Statistics Department (1999)

Japan supplied HK\$ 291 million worth of denim fabric for export in 1998, about 5.4% of Hong Kong re-exported denim fabric.

In addition to sourcing denim fabric from its neighbors, Hong Kong also sourced denim fabric from the U.S., Canada, and the United Kingdom. But their contribution to Hong Kong's total re-exports was small.

The average price of Hong Kong re-export denim fabric was around HK\$ 6.3 to HK\$ 8.1 per square metre between 1992 and 1998. The denim fabric from China Taiwan sold at HK\$ 5.2 to HK\$ 6.1 per square metre that from the Chinese Mainland sold at HK\$ 9.0 to HK\$ 11.1 per square metre. The denim fabrics from Japan, U.S., Canada, Norway and the United Kingdom were at a higher price (more than HK\$ 17 per square metre). The denim fabrics from South Korea, India and Indonesia were at a lower price (less than HK\$ 10 per square metre).

Denim apparel re-exports by origin

Almost the whole of the Hong Kong re-exported denim apparel was from the Chinese Mainland which thus played a dominant role. HK\$ 3.3 billion worth of Hong Kong re-exported denim apparel was from Mainland China in 1996, which was the peak between 1992 and 1998. In 1998, HK\$ 2.0 billion or 97.0 per cent of Hong Kong re-exported denim apparel came from the Chinese Mainland.

Another supplier of Hong Kong denim apparel re-exports was the U.S., which supplied HK\$ 45 million worth of denim apparel, or 2.1 per cent of Hong Kong re-exports in 1998. Italy and the Philippines supplied HK\$10.4 millions worth of denim apparel for Hong Kong re-export, and thus had a very small share of Hong Kong denim apparel re-exports.

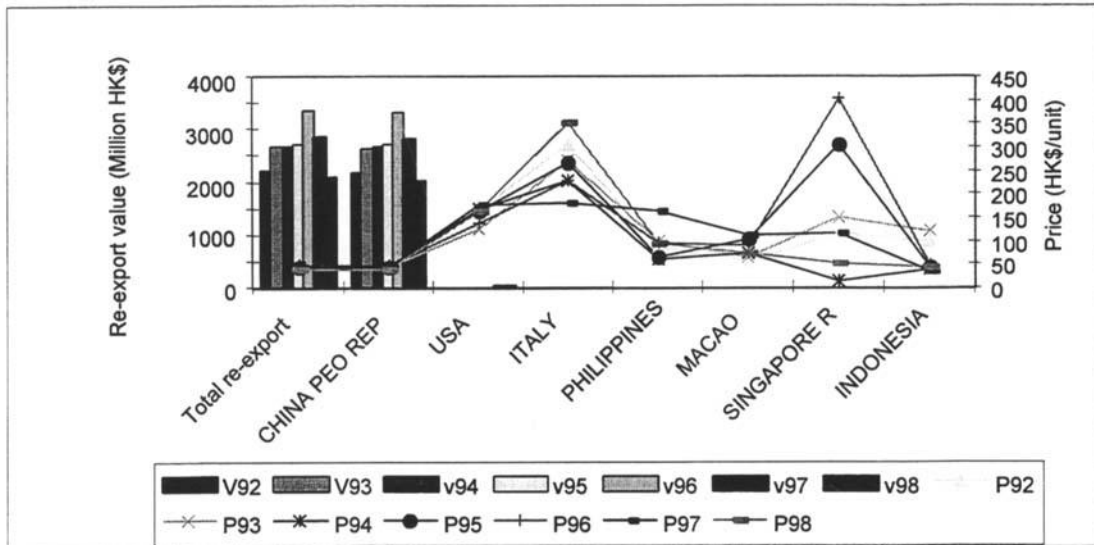
The price of denim apparel from the Chinese Mainland was around HK\$ 36 to 47 per unit; compared with that from U.S. (HK\$ 160 per unit) and Italy (HK\$ 350 per unit) it was relatively low. The denim apparel from the Philippines, Macao, Singapore and Indonesia were sold at HK\$ 95, 71, 50 and 43 per unit in 1998 respectively.

10.3.2 Re-exports by destination

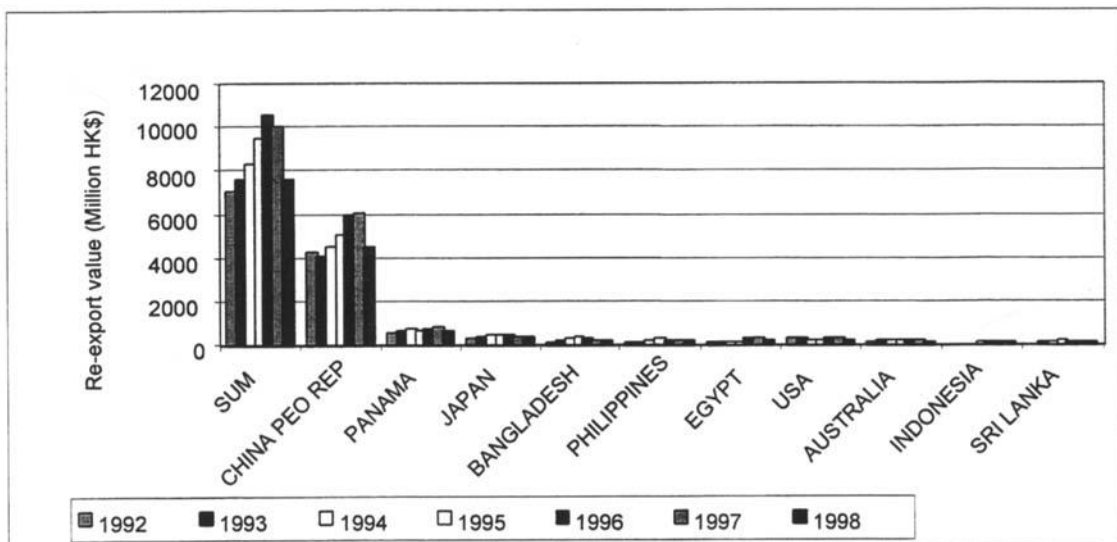
The major destinations of Hong Kong re-exported denim products were Mainland China, Panama, Japan, Bangladesh, Philippines, Egypt, USA, Australia, Indonesia and Sri Lanka. The Chinese Mainland was the most important market of Hong Kong denim product re-exports, and imported HK\$ 4.5 billion of denim products in 1998 accounting for 59.0 per cent of Hong Kong's re-exports. Hong Kong re-exports to the Chinese Mainland peaked in 1997 with HK\$ 6.0 billion or 60.4 per cent of Hong Kong total re-exports. Between 1992 and 1997, the denim products exported to the Chinese Mainland from other countries through Hong Kong increased by 8.4 per cent per year on average. However, the value fell by a quarter in 1998.

The second most important Hong Kong re-export destination was Panama, who contributed 8.8 per cent of Hong Kong re-exports in 1998. HK\$ 507 million worth of denim products were exported to Panama through Hong Kong in 1992 and, in the following years, with an average growing rate of 13.7 per cent a year, the value became HK\$ 855 million in 1997. But it reduced to HK\$ 670 million in 1998.

The third most important market for Hong Kong re-exports was Japan. HK\$ 309 million worth of denim products were re-exported to Japan through Hong Kong in 1992, and the value peaked in 1994 with HK\$ 483 million. In 1998, the value had reduced to HK\$ 317 million, accounting for 4.2 per cent of Hong Kong total re-exports of denim products. Bangladesh, the Philippines and Egypt were the other three important markets for Hong Kong's re-exports, and contributed 2.3, 2.3 and 2.1



10.9 Hong Kong denim apparel re-exports by origin
Adapted from Hong Kong Census and Statistics Department (1999)

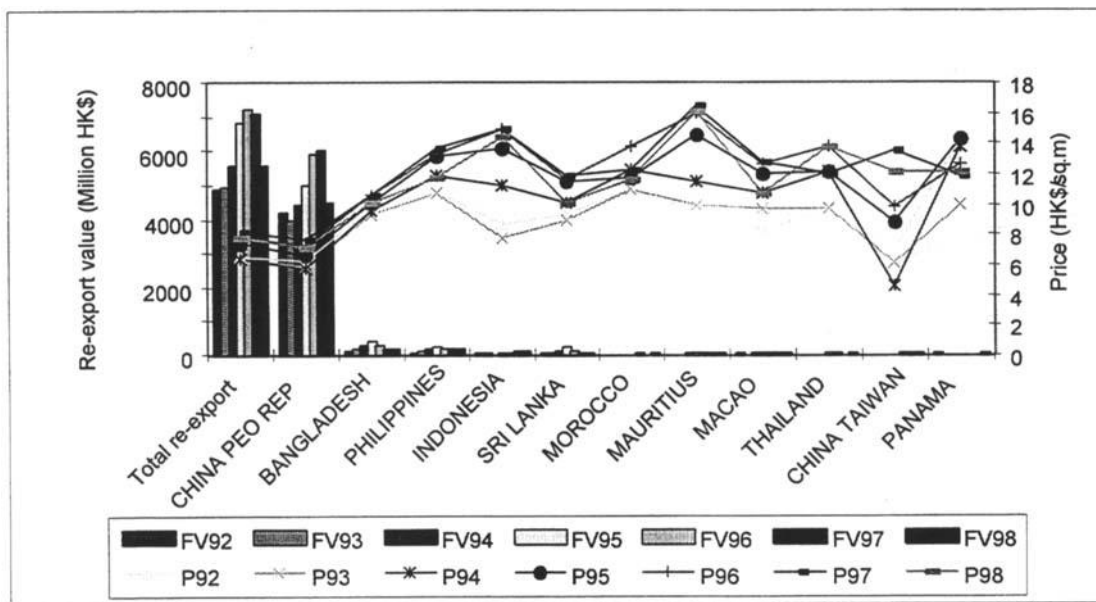


10.10 Hong Kong denim products re-exports by destination
Adapted from Hong Kong Census and Statistics Department (1999)



10.11 Hong Kong denim products re-exports by destination
Adapted from Hong Kong Census and Statistics Department (1999)

per cent of total re-exports respectively in 1998. These three Hong Kong re-export markets were growing fast between 1992 and 1998. Bangladesh's market increased from HK\$ 94 million in 1992 to HK\$ 178 million in 1998 an average growth of 14.8 per cent per year. The Philippines, with an average growing rate of 22.0 per cent per year from 1992 to 1998, imported HK\$ 176 million worth of denim products from other countries through Hong Kong in 1998. Hong Kong re-exported HK\$ 68 million worth of denim products to Egypt in 1992, but this grew at 21.3 per cent a year, and Hong Kong re-exported HK\$ 156 million worth of denim products to Egypt in 1998.



10.12 Hong Kong denim fabric re-exports by destination
Adapted from Hong Kong Census and Statistics Department (1999)

U.S., Australia, Indonesia and Sri Lanka shared 1.8, 1.6, 1.4 and 1.1 per cent of Hong Kong re-exports respectively in 1998. With an average annual reducing rate of 7.3 per cent, the U.S. market fell from HK\$ 280 million in 1992 to HK\$ 137 million in 1998. Indonesia was the fastest growing market for Hong Kong re-exports. Between 1992 and 1998, Hong Kong re-exports to Indonesia increased from HK\$ 33 million in 1992 to HK\$ 106 million in 1998 an average growing rate of 37.1 per cent each year.

The above ten countries contributed 79 to 85 per cent of Hong Kong total re-exports from 1992 to 1998.

Denim fabric re-exports by destination

Hong Kong denim fabric re-exports peaked in 1996 with a value of HK\$ 7.2 billion. In 1997, the value fell to HK\$ 7.1 billion, and 1998 was a poor year for Hong Kong denim fabric re-exports, since the value dropped by 22.2 per cent, to HK\$ 5.5 billion. Even as value fell its contribution to the Hong Kong re-exports increased. It represented 72.7 per cent of Hong Kong denim product re-exports in 1998; in the other years of the investigation period, denim fabric re-exports were 64 to 71 per cent of Hong Kong denim products re-exports. (See Fig. 10.13)

The Chinese Mainland was the most important market for Hong Kong denim fabric re-exports, and contributed 80.6 per cent of Hong Kong denim fabric re-exports in 1998. The market of Mainland China grew from HK\$ 4.2 billion in 1992 to HK\$ 6.0 billion in 1997. However, the market shrunk in 1998 and HK\$ 4.5 billion worth of denim fabric was re-exported from Hong Kong to the Chinese Mainland.

Bangladesh and the Philippines were the other two important markets for Hong Kong denim fabric re-exports, and accounted for 3.2 and 3.0 per cent of Hong Kong denim fabric re-exports respectively in 1998.

Indonesia and Sri Lanka shared 1.9 and 1.5 per cent of Hong Kong denim fabric re-exports in 1998. Other markets included Morocco accounting for 0.8 per cent of Hong Kong denim fabric re-exports in 1998, Mauritius (0.7 per cent), Macao (0.7 per cent), Thailand (0.7 per cent), China Taiwan (0.6 per cent) and Panama (0.6 per cent). The markets in most of the above countries shrank between 1997 and 1998, and Hong Kong's denim fabric re-exports declined in these years.

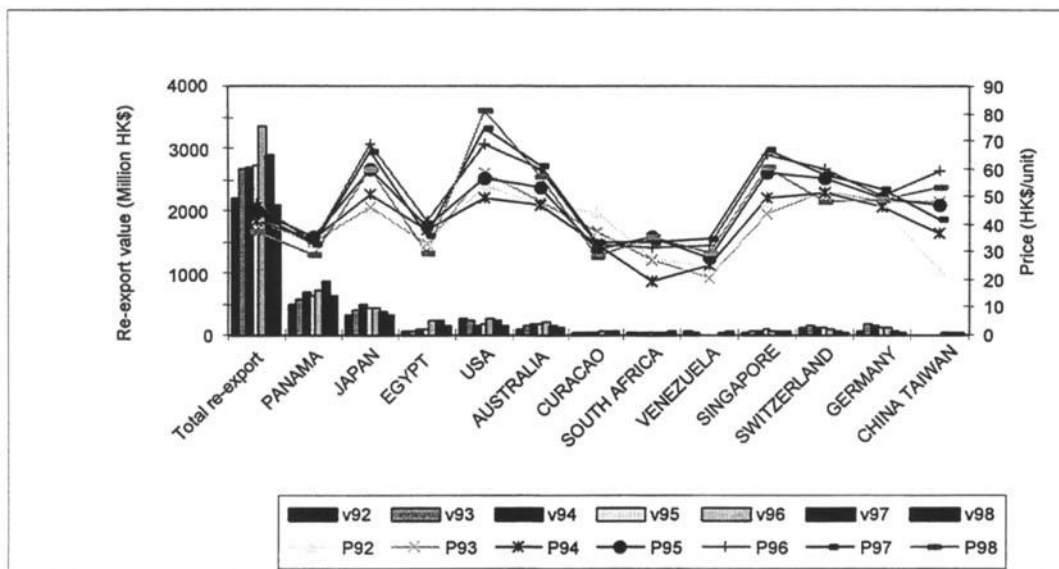
The average price of Hong Kong denim fabric re-exports was HK\$ 7.7 per square metre in 1998. The denim fabric supplied to the Chinese Mainland was at a lower price (HK\$ 7.2 per square metre).

Higher prices were obtained for denim fabric re-exported to Bangladesh, the Philippines, Sri Lanka and Macao (about HK\$ 10 per square metre), to Morocco (more than HK\$ 11.6 per square metre), to Indonesia, Mauritius, Thailand, Taiwan and Panama (more than HK\$ 12 per square metre) in 1998.

Denim apparel re-exports by destination

The major markets for Hong Kong denim apparel re-exports were Panama, Japan, Egypt, the U.S. and Australia. Panama, contributed 30.6 per cent of the total Hong Kong denim apparel re-export market, and was the most important single market in 1998. HK\$ 847 million worth of denim apparel was exported through Hong Kong to Panama in 1998, which was the peak of Hong Kong denim apparel re-exports to Panama in recent years.

Japan was the second most important market for Hong Kong denim apparel re-exports. From 1992 to 1994, the Japanese market increased from HK\$ 478 million to



10.13 Hong Kong denim apparel re-exports by destination
Adapted from Hong Kong Census and Statistics Department (1999)

685 million, which was the peak in the investigation period. In 1998, Hong Kong re-exported HK\$ 303 million worth of denim apparel to Japan, accounting for 14.6 per cent of Hong Kong denim apparel re-exports.

Egypt contributed 7.4 per cent of Hong Kong denim apparel re-exports in 1998. The re-exports grew from HK\$ 64 million in 1992 to HK\$ 227 million in 1997. In 1998, Hong Kong re-exported HK\$ 153 million worth of denim apparel to Egypt.

About 6.3 per cent of Hong Kong denim apparel was re-exported to the US in 1998. The market in the US was not steady between 1992 and 1998. The values of Hong Kong re-exports to US in 1994 and 1998 were the lowest in the past seven years, being worth HK\$ 145 million in 1994 and HK\$ 130 million in 1998. The peak of Hong Kong re-exports to the U.S. appeared in 1996 with a value of HK\$ 276 million.

HK\$ 113 million worth of denim apparel was re-exported to Australia in 1998, accounting for 5.4 per cent of Hong Kong denim apparel re-exports. Hong Kong denim apparel re-exports to Australia peaked in 1996 with a value of HK\$ 187 million.

Curacao, South Africa, Venezuela and Singapore contributed 2.1 to 2.5 per cent of Hong Kong denim apparel re-exported in 1998. The important market for denim fabric re-exports, Mainland China, contributed just 1.4 per cent to Hong Kong's denim apparel re-exports in 1998.

The average price of Hong Kong denim apparel re-exports was HK\$ 37 to HK\$ 44 per unit between 1992 and 1998. The denim apparel re-exported to Panama, Egypt, Curacao and Venezuela was around HK\$ 30 per unit, to Japan and Singapore was HK\$ 60-odd per unit, and to USA was more than HK\$ 80 per unit.

10.4 IMPORTS

10.4.1 Introduction

The value of Hong Kong's denim products imports was HK\$ 8.2 billion in 1992, and

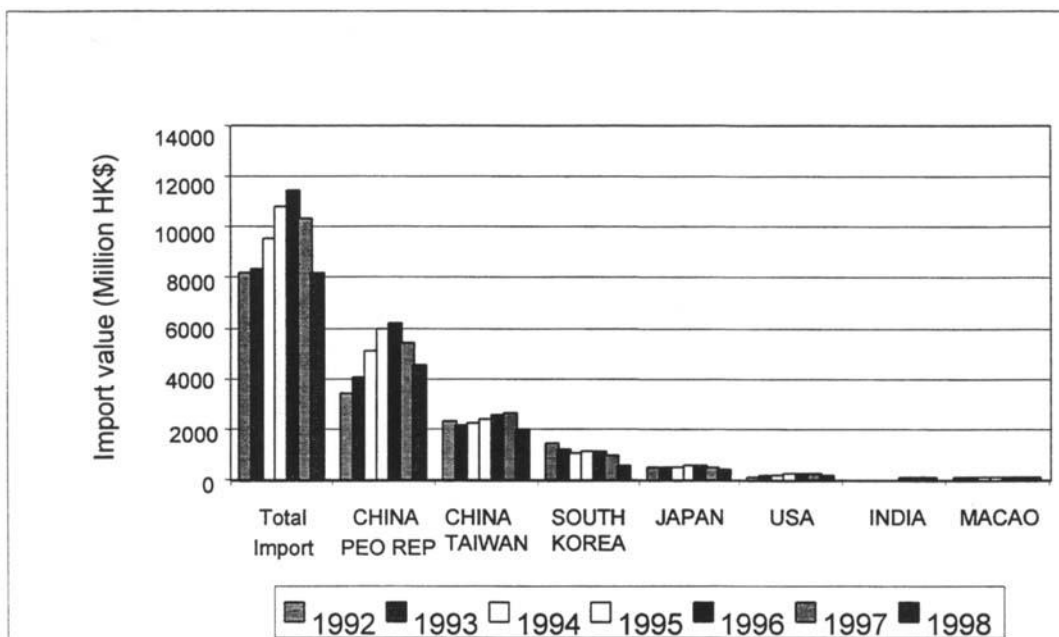
peaked in 1996 with HK\$ 11.5 billion worth of denim products imported. The import value declined sharply from 1997 to 1998, by 20.6 per cent, and the import value fell to HK\$ 8.2 billion. The major suppliers of Hong Kong denim products were Asian countries (area), such as the Chinese Mainland, China Taiwan, South Korea, Japan, India and Macao. The U.S. is a non-Asian source of Hong Kong denim product imports. (See Fig. 10.15 and 10.16)

Mainland China was the most important supplier of Hong Kong denim products, and HK\$ 3.4 billion worth of denim products came from there in 1992. The value became HK\$ 6.2 billion in 1996, which was the peak. In the next two years, the value reduced. In spite of this reduction, China exported HK\$ 4.5 billion worth of denim products to Hong Kong, and captured 54.9 per cent of Hong Kong's total imports in 1998.

The second most important supplier, China Taiwan, exported HK\$ 2.3 billion worth of denim products in 1992 which grew at 2.7 per cent per year to HK\$ 2.6 billion in 1997. However, China Taiwan exported HK\$ 2.0 billion worth of denim products to Hong Kong in 1998 a reduction of 25.4%. China Taiwan contributed about a quarter of Hong Kong's denim product imports in the investigation years. In 1992, the products exported from Taiwan accounted for 28.4 per cent of Hong Kong imports. In 1998, its share of Hong Kong imports was 23.8 per cent.

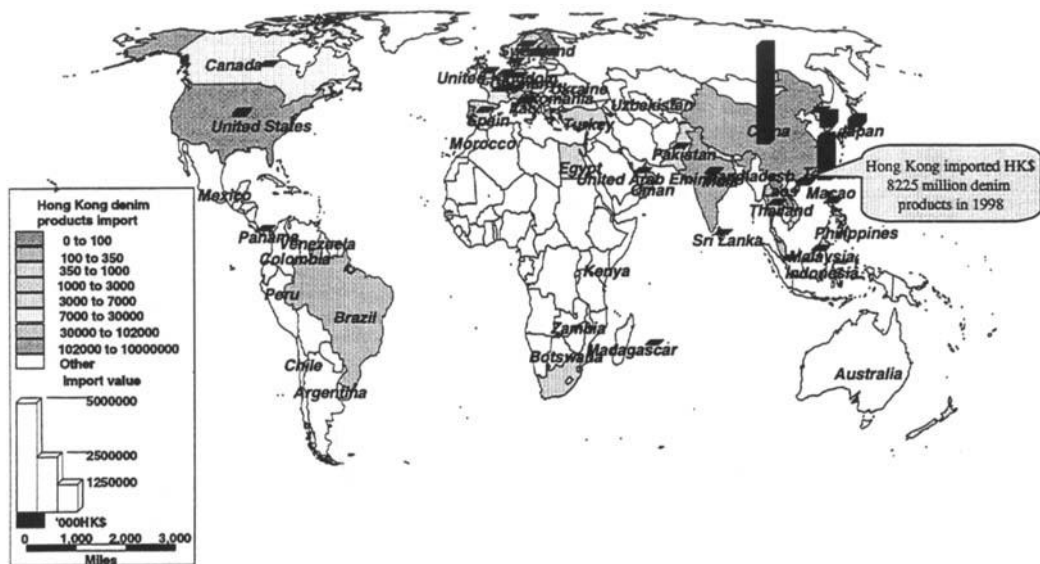
South Korea was the third important supplier for Hong Kong. About 7.0 per cent of Hong Kong total imports were from South Korea. From 1992 to 1996, South Korea's export value was kept at more than HK\$ 1.0 billion. However, the export value fell in 1997 and 1998. In 1997, South Korea still exported HK\$ 954 million worth of denim products to Hong Kong, but the fall in value accelerated and became HK\$ 575 million in 1998.

Japan exported 4.6 per cent of Hong Kong total imports in 1998, the US 2.0 per cent, India 1.2 per cent and Macao 1.2 per cent. These seven suppliers accounting for about 95 per cent of Hong Kong total imports each year between 1992 and 1998.



10.14 Hong Kong denim products imports

Adapted from Hong Kong Census and Statistics Department (1999)



10.15 Hong Kong denim products imports
Adapted from Hong Kong Census and Statistics Department (1999)

10.4.2 Denim fabric imports

Denim fabric imports contributed 28 to 34 per cent by value of Hong Kong's total imports of denim products between 1992 and 1998. Hong Kong denim fabric imports peaked in 1996 with value HK\$ 7.8 billion. In 1997 and 1998, Hong Kong's denim fabric imports dropped by 6.9 and 22.9 per cent, and fell to HK\$ 7.3 billion and HK\$ 5.6 billion. (See Fig. 10.17)

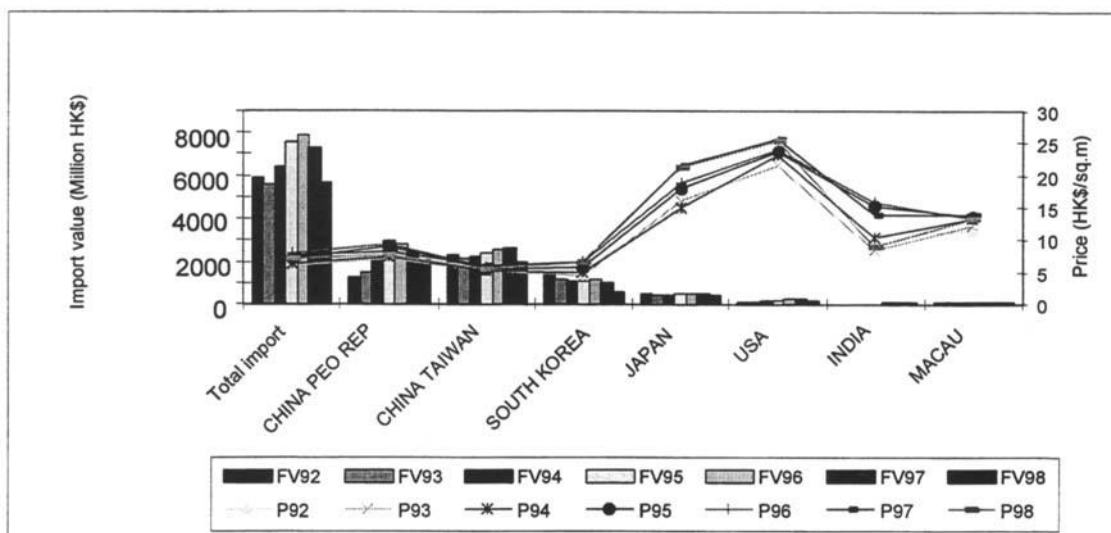
The important sources of Hong Kong imports of denim fabric were the Chinese Mainland, China Taiwan, South Korea, Japan, USA, India and Macao. They supplied more than 94 per cent of Hong Kong denim fabric imports in every year investigated. (See Fig. 10.17)

From 1995, Mainland China was the most important supplier of Hong Kong denim fabric imports, and exported HK\$ 2.1 billion worth of denim fabric to Hong Kong in 1998, accounting for 36.8 per cent of Hong Kong total imports. (See Fig. 10.17)

Before 1995, China Taiwan was the most important supplier for the Hong Kong denim fabric imports market. Taiwan was the second most important supplier in 1998, exporting HK\$ 2.0 billion worth of denim fabric, accounting for 34.6 per cent of Hong Kong's imports. (See Fig. 10.17)

South Korea was the third most important supplier to Hong Kong, accounting for 10.1 per cent of Hong Kong denim fabric imports in 1998, followed by Japan (6.6 per cent), USA (2.3 per cent), India (1.8 per cent) and Macao (1.8 per cent). (See Fig. 10.17)

The average price of Hong Kong imported denim fabric was HK\$ 6.4 to HK\$ 7.7 per square metre. The price from the Chinese Mainland, its most important supplier, was HK\$ 7.2 to HK\$ 9.2 per square metre, which was higher than the average Hong Kong import price. The price of denim fabric from China Taiwan was HK\$ 5.0 to HK\$ 6.0 per square metre. The highest priced denim fabric was from the U.S., which sold at about HK\$ 25 per square metre. Of the denim fabric from other countries, that



10.16 Hong Kong denim fabric imports
Adapted from Hong Kong Census and Statistics Department (1999)

from Japan, sold at HK\$ 21 per square metre in 1998, from India at HK\$ 9.0 per square metre and from Macao at HK\$ 13.30 per square metre. (See Fig. 10.17)

10.4.3 Denim apparel imports

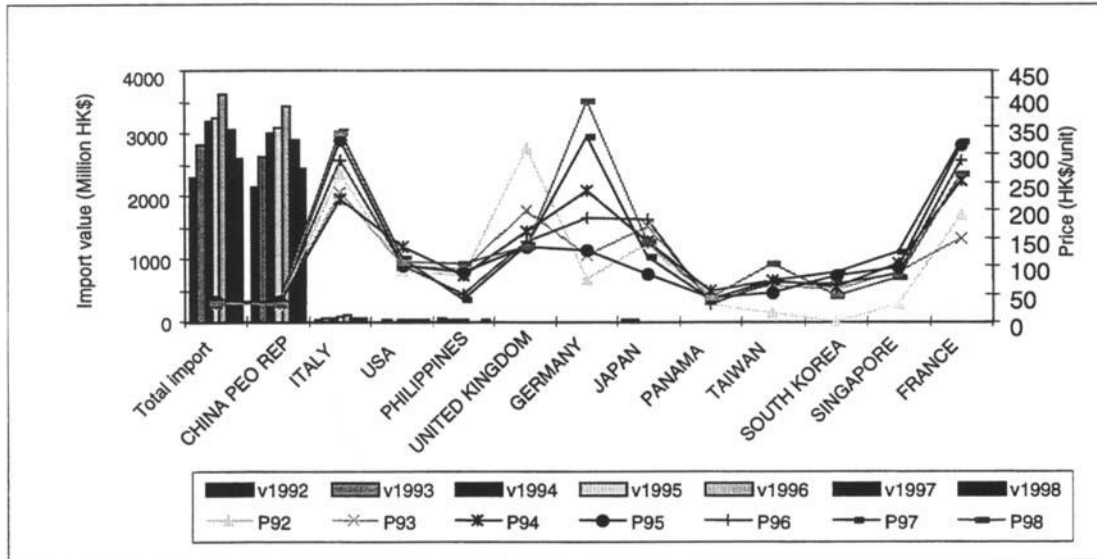
Denim apparel is an important part of Hong Kong denim product imports. About 66 to 72 per cent of Hong Kong import denim products were denim apparel between 1992 and 1998. Hong Kong imported HK\$ 2.3 billion worth of denim apparel in 1992. The import value peaked in 1996 with HK\$ 3.6 billion. Hong Kong imports then fell sharply in the next two years, and Hong Kong imported HK\$ 3.1 billion worth of denim apparel in 1997, and HK\$ 2.6 billion in 1998. (See Fig. 10.18)

China was the most important source of Hong Kong's imported denim apparel. About 94 per cent of all Hong Kong's imports of denim apparel were from the Chinese Mainland between 1992 and 1998. (See Fig. 10.18)

Other suppliers included Italy, the U.S., the Philippines; Italy contributed 2.0 per cent of Hong Kong import denim apparel, the U.S. 1.4 per cent, and the Philippines 0.6 per cent in 1998. (See Fig. 10.18)

The average price of Hong Kong's imported denim apparel was HK\$ 31 to 37 HK\$ per unit in the investigation period. The lowest price for denim apparel was from the Chinese Mainland, which was at about HK\$ 30 per unit. The prices from Panama and South Korea, and Singapore were at HK\$ 40 to HK\$ 80 per unit. The highest price of denim apparel was from Italy, more than HK\$ 300 per unit. (See Fig. 10.18)

Alongside the low price denim apparel from the Chinese Mainland, a big slice of highly priced denim apparel from Italy and USA was imported. The denim apparel from Italy and the U.S. was famous for their design, brands, and quality. Hong Kong domestic consumers have a high consumptive capacity, and the denim apparel from the two important famous apparel producers have a significant market share in Hong Kong's domestic market. (See Fig. 10.18)



10.17 Hong Kong denim apparel imports
Adapted from Hong Kong Census and Statistics Department (1999)

SUMMARY

As the second most important supplier to the U.S. market and the fourth largest non-EU supplier in the EU market, Hong Kong has played an important role in international denim markets. However, among the Hong Kong exports of denim products, more and more products are re-exported, which means the more products export from Hong Kong have not undergone a manufacturing process in Hong Kong. The Hong Kong trading (import or export) sector is thus important to Hong Kong in keeping its market share in the world market.

Hong Kong's domestic exports have declined from 1995, and re-exports have declined from 1996. As the labor and land costs in Hong Kong are high, it became a high cost manufacturing area and many manufacturing producers shifted their manufacturing factories to offshore. The domestic production capacity reduced, causing the domestic exports to fall. In the re-export sector, the launch of the US rules of origin for imported textile and apparel products influenced Hong Kong denim apparel re-exports from the Chinese Mainland. As Hong Kong was the most important area through which Chinese textile products were re-exported, the rules restricted a big part of China's denim apparel exports to the U.S. via Hong Kong. In 1997 and 1998, the Asian financial crisis occurred, and many Asian countries devalued their currency. The steady currency of China and Hong Kong brought huge pressures on denim products exports, as their price in the international market became higher than that from the countries which had devalued.

The unfavorable balance of the Hong Kong denim product trade expanded in recent years. Hong Kong became a denim product importer, rather than an exporter, and is losing the important position in world denim manufacturing which it had in the last few decades.

The Chinese Mainland, U.S., and EU were the three most important Hong Kong domestic export markets. Re-exports of denim products via Hong Kong were mainly from the Chinese Mainland and Taiwan, South Korea, and Japan, and to the Chinese Mainland, Panama, Japan, Bangladesh, US, and Australia. In the US and EU markets, denim products from Hong Kong belonged to the lower class. The price of domestic denim products of Hong Kong made for export was much higher than the denim product re-exported via Hong Kong. The re-export markets for Hong Kong worldwide. The source was concentrated in the Asian countries.

The denim products Hong Kong imported were mainly from Asian countries, such as Mainland China, Chinese Taiwan, South Korea, and Japan. As Hong Kong still has a manufacturing capacity, denim fabric was an important part of Hong Kong imports. While a big part of imported denim apparel came from Italy and U.S., denim fabric was mostly imported from surrounding countries.

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