

9 The Hong Kong Denim Industry

9.1 INTRODUCTION

The denim industry in Hong Kong developed earlier than that in China, and was a world-class manufacturing base of denim apparel in the 1970s and 1980s. As a pioneer of ladies designer jeans in the 1970s, the Hong Kong denim jeans business has been hugely successful, bringing fame and fortune to Hong Kong. Currently, Hong Kong is the second most important supplier in the U.S. market and the fourth largest non-EU supplier in the EU market, and plays an important role in the international denim trade.

However, the size of the Hong Kong denim industry has declined in the last decade, the number of enterprises in the industry has reduced, and the industry's production capacity also fell. With a quickly developing economy, labor costs became very high in Hong Kong. Meanwhile, as a developed metropolitan economy, there were limited land and natural resource. Consequently, since the denim industry is a labor-intensive industry, the high labor costs and limited resources prevented the indigenous industry expanding and developing. As a result, manufacturers shifted their manufacturing factories to low-costs countries or invested in setting up self distribution channels.

9.2 HISTORY

Weaving and knitting began in the 1920s with manually-operated machines in small units located in tenement buildings and the back rooms of cottages [1]. These sectors quickly developed after the end of the 1940s, encouraged by the capital, experience and skill brought by immigrants from the Chinese Mainland, when the Chinese Civil War erupted. The immigrants from the mainland in the 1950s and 1960s also brought a pool of the low wage labour, and this was undoubtedly a major factor contributing to the dramatic growth of garment manufacturing in Hong Kong. By the early 1960s the garment industry had overtaken the textile industry to become the largest foreign

exchange earner and employer in the manufacturing sector. Hong Kong's garment firms are largely export oriented [2]

In the late 1960s, the youth revolution overwhelmed the world, and omnipresent blue jeans became a universal symbol of freedom. Denim jeans didn't only become popular in the US; they also entered the European and Asian markets as a new commodity and were quickly welcomed by young people.

There is no way of establishing a certain date when the Hong Kong denim industry was established. In general, it developed from the beginning of the 1970s, according to information from a senior professional in the industry.

In the middle of 1970s, demand for denim in the world market suffered a downturn after soaring for decades. Producers suffered from overproduction, a glut of inventories, and low price goods from developing countries [3]. Design jeans were therefore introduced into the market and became a fashion trend. New comers, like Gloria Vanderbilt, Calvin Klein, Bill Blass, Jordache, and Sergio, entered the denim business with their designer denim jeans. Of these labels, Gloria Vanderbilt inaugurated the women's designer denim apparel business and had a big success. Gloria Vanderbilt jeans were introduced by Murjani International Ltd., a Hong Kong based manufacturer, which was founded in Hong Kong by B.K. Murjani, father of Mohan B. Murjani, who became the Gloria Vanderbilt jeans designer, producer and marketer [4]. Gloria Vanderbilt jeans caused Hong Kong to play an important role in the 1970s' world denim fashion market.

Murjani International Ltd. was founded in Hong Kong in 1945 and became a maker of Gloria Vanderbilt blouses in 1976 [4]. Hong Kong is the headquarters of the company though, to be close its target market, the U.S., the company established another headquarters in New York. In 1975 jeans were designed exclusively for men, but Mohan B. Murjani turned work clothes into high fashion by cutting them to fit women and, by associating them with a known designer name, sold them by television advertising in the most prominent denim jeans market, the U.S. The jeans were made to a higher quality than normal jeans, which are designed for durability rather than style. The products sought a personality that would lift jeans above the level of work clothes - and justify the \$34 price tag in 1977 when Levi jeans were selling for about \$15 [4, 5]. Skeptics wondered how it could succeed. Four months later, backed by a US\$1 million TV ad campaign, they became an immediate success and so began a period of craze for status jeans [4]. The success of the Murjani-Vanderbilt team established a sure-fire formula for the selling of "designer" jeans and set in motion a new trend in apparel marketing and advertising [5]. The Murjani Company had sales \$150 million in the fiscal year ended March 1980, and most of them were Gloria Vanderbilt jeans [6]. The marketing of Vanderbilt jeans is a tribute to promotion, advertising and respectable hype. And it is one of the most dramatic U.S. business success stories of the decade [7].

When Gloria Vanderbilt jeans made a big success in the US market, many enterprises in Hong Kong joined the business, in which Hong Kong was the manufacturing base for Gloria Vanderbilt jeans. The Made in Hong Kong label meant the garment was cheap in price and quality in the 1970s [8]. However, Hong Kong became a hot-selling designer jeans supplier to overseas markets in the 1980s. In 1980, 60 factories in Hong Kong and nearby Macao produced the Gloria Vanderbilt line. Gloria Vanderbilt is the first Hong Kong garment maker to produce a successful brand-name garment of its own [7]. It has a profound effect on the development of the Hong Kong textile and garment industry in the next following decades, drawing on all aspects of marketing skill and the image of Hong Kong products improved. Hong

Kong became the place to find factories that do quality work and meet deadlines. However, all denim products were under quota, restricted by the MFA. The hottest of the hot quotas was for jeans jackets in the 1980s, which were in great demand in the U.S. and were being sold at \$9 per jacket [9].

Apart from Gloria Vanderbilt jeans, other brands of denim jeans were also produced in Hong Kong, such as Jordache, Pepe and Union Bay. Jeans had brought fame and fortune to Hong Kong. Most of firms that produced the jeans were small size and not even listed in yellow pages [9]. Workers worked in small factories with simple machinery, at great intensity.

The Hong Kong denim dyeing sector was developed from the beginning of the 1970s to meet the demands of denim production, and a number of weaving mills established slasher dyeing plants in 1971 to obtain better quality and control [1]. Hong Kong has no domestic indigo production, and all the indigo had to be imported from other countries. The sudden demand for indigo led to its price soaring. In the second half of the 1970s, the world denim demand reduced. The size of orders generally decreased and the denim business declined, thus increasing the competition between the large and the medium-sized dye houses [1]. In the latter half of 1979, the denim business started to revive again from its decline in 1977, but escalating land prices and fuel costs had greatly increased the overheads of the industry [1].

The booming denim industry in the 1980s brought serious pollution to the Hong Kong environment. Stonewashing, acid washes, ice washes, oxide washes, oxy washes, and whitewashes were applied in the denim washing process in Hong Kong. One source indicated that one washing factory went through 2,000 pounds of bleach each day. In the 1980s, environmental protection in Hong Kong consisted of an understaffed agency that could only ask factories to be more careful. In some piers in Hong Kong, at the high tide line, one can see that the lower part of the pier is pure, dark blue, and then you notice that the water is such a thick blue color it's almost black. That is because indigo dye, the stuff and wastewater that makes the blue in blue jeans, is dumped straight into the harbor from the weaving factories, with a paler version coming from the washing factories and their used bleach. The situation was changed in the 1990s when the Hong Kong government improved the investment in environmental protection, and new technology was applied (biodegradable treatment of indigo dyes).

With the economy developing, labor and land costs became very expensive in Hong Kong. The denim industry is labor intensive, just as other textile and garment sectors. It faced huge pressure from the high labor and land costs when competing with producers in other developing countries.

At the end of the 1970s, the industry found a vast arena in which to deploy the assets and skills they had developed in low-cost, low-end manufacturing. With the opening of China to foreign direct investment and the new market-oriented experiments in coastal regions and special economic zones from 1978 on, Hong Kong denim manufacturers found an enormous field for expanding their operations. The manufacturers transferred and expanded production facilities into South China, thereby solving the problems of rising labor and land costs in Hong Kong. They also invested in other nearby developing countries such as Vietnam and Thailand.

By the early 1990s, the North American Free Trade Agreement (NAFTA) has come into force. The North American free-trade zone emerged as a huge and potential market for Hong Kong enterprises. When the NAFTA was launched, the producers grasped the opportunity, and invested in free trade countries such as Canada, where there are no quotas for US bound denim fabric. After several years, the competition

from other American countries, such as Mexico, Costa Rica, etc., who have low labor and land costs, became stiff. The US denim market was shared by such American countries more and more. In such conditions, in order to keep the US market, and diminish the influence of NAFTA, Hong Kong enterprises also invested in other South American countries, such as Costa Rica and Panama and also in Morocco, where there are also low labor costs.

Besides transferring their manufacturing bases to developing countries, more direct involvement in retailing business was found among Hong Kong clothing enterprises. Many chain stores had already built intensive networks in the local retailing market, as well as overseas. Giordano, Jeanswest and Bossini, were typical examples.

Furthermore, many attempts were made to develop new non-quota markets, such as Japan, the Middle East, and South-east Asian countries. Jeanswest, Giordano, and Bossini set up retailing networks in the Middle East and had a significant market share there.

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