

6 Hong Kong Denim Products Trade¹

OVERVIEW

HK began its denim production in the 1950s when it imported automatic shuttle looms from the Chinese Mainland and Japan. With the introduction of shuttleless looms in the late 1970s, denim produced in HK has undergone great quality improvement and denim trade with other countries shows a health growth [1].

Hong Kong imported HK\$ 8155 million worth of denim products in 1992 and the amount expanded by 10.2% per year on the average. The import value peaked in 1996 at HK\$ 11476 million. However, the economic recession in HK and lackluster consumer spending cast a shadow upon the import markets. Both Hong Kong denim fabric and apparel imports declined between 1996 and 1998. After a 9.70% decline in 1997, Hong Kong's total denim product imports dropped by 20.6% in 1998. Denim apparel held the lion's share, capturing around 70% of total denim product imports. (See Fig. 6.1)

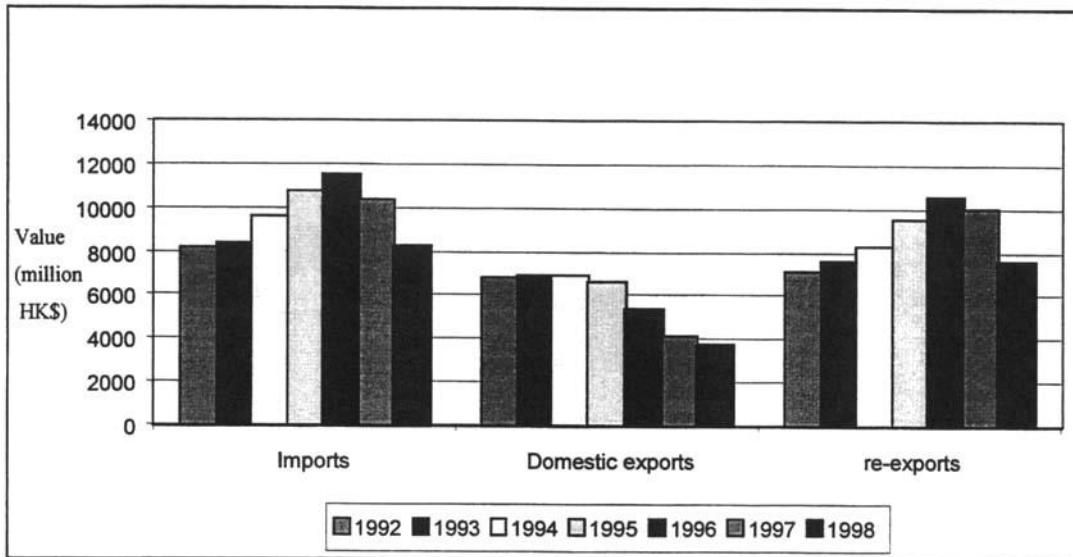
Between 1992 and 1995, Hong Kong domestic exports remained steady at around HK\$ 6780 million. However, they declined continuously in the next three years--by 19.4%, 23.5% and 8.7% in 1996, 1997 and 1998 respectively. In 1996 and 1997, Hong Kong domestic exports shrank in the US, the United Kingdom, and Germany, which were once the most important overseas markets for Hong Kong denim products. In 1998, the export value continued to drop, mainly due to the sharp decline by 15.6% in the Chinese mainland market. By contrast, exports to the US and the United Kingdom rebounded. Hong Kong denim fabric exports increased their share from 41.2% of Hong Kong domestic exports in 1992 to 49.8% in 1998.

Due to its unique geographic location, remarkable strength in the service sector and economic restructuring in the 1980s, re-exports play a key role in HK's foreign trading regime. In 1992, HK\$ 7071 million worth of denim products was re-exported through Hong Kong. The value escalated at an average annual growth rate of 12.4%, reaching its peak in 1996 with HK\$ 10578 million. However, negatively influenced by the Asian financial crisis, Hong Kong re-exports suffered a sharp drop, by 23.7% in 1998.

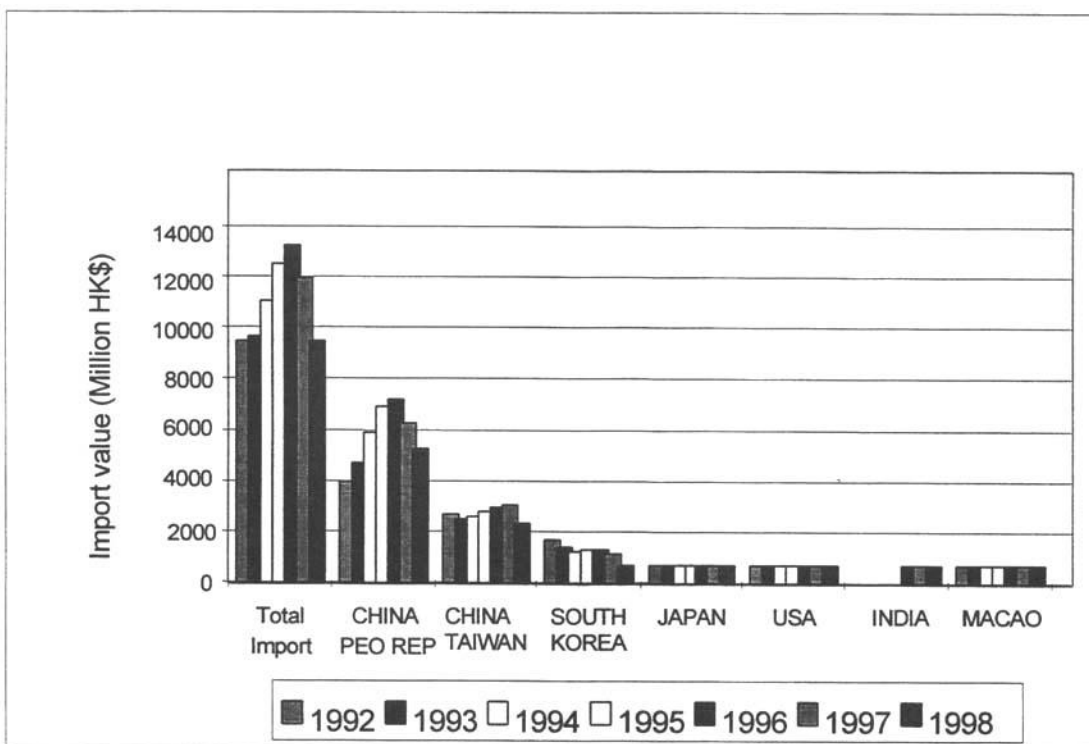
The most important trading partner was the Chinese Mainland, which was not only the most significant supplier but also the most crucial consumer for HK denim products. The unique relationship between the two sides has been explained in detail in chapter 2.

¹ The data in this section was from HK Census and Statistics Department

6.1 Hong Kong denim product trade



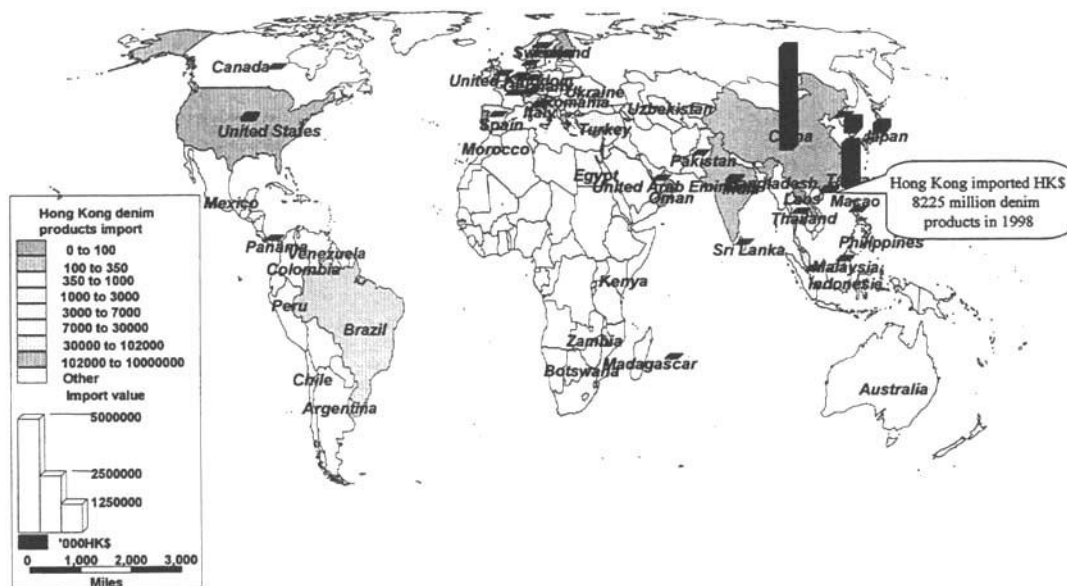
6.2 Hong Kong denim product imports by major markets



6.1 IMPORTS

Hong Kong's denim product imports reached HK\$ 8155 million in 1992, peaking in 1996 with HK\$ 11476 million. The total import value declined sharply from 1997 to 1998, falling to HK\$ 8225 million in 1998, down by 20.6% over 1997. The major suppliers were the Chinese Mainland, China Taiwan, South Korea, Japan, USA, India and Macao.

6.3 Hong Kong denim product imports



The Chinese Mainland was the most important supplier. HK\$ 3392 million worth of denim products were imported from the Chinese Mainland in 1992. The value peaked in 1996 at HK\$ 6241 million and then slumped to HK\$ 4516 million in 1998. Despite this relatively poor export performance of the Chinese mainland, it still captured 54.9% of Hong Kong total imports in 1998.

China Taiwan, the second most important supplier, held a 23.8% share in 1998. With a growth rate of 2.7% on the average, imports from China Taiwan increased from HK\$ 2315 million in 1992 to HK\$ 2621 million in 1997. However, the value reduced to HK\$ 1955 million in 1998 due to the overall slack performance of the East Asian countries in 1998.

South Korea was the No. 3 supplier, holding about 7.0% of Hong Kong's total imports. From 1992 to 1996, the South Korean export value remained over HK\$ 1000 million. However, it dropped rapidly in the next two years, down to HK\$ 575 million in 1998.

Other suppliers included Japan (4.6%), USA (2.0%), India (1.2%) and Macao (1.2%). These seven suppliers accounted for about 95% of Hong Kong total imports between 1992 and 1998.

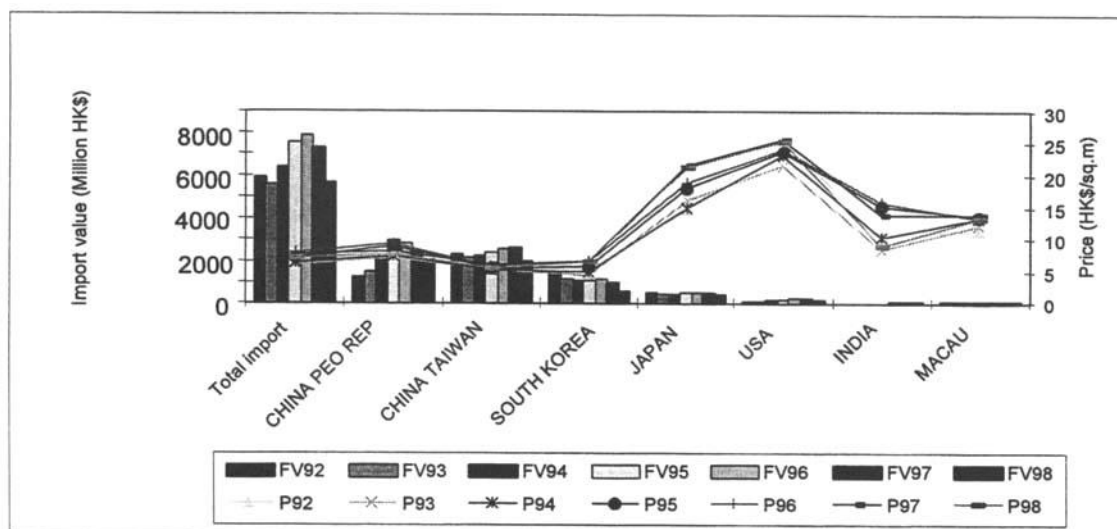
6.1.1 Denim fabric imports

Denim fabric imports comprised 28%~34% of Hong Kong total denim product imports between 1992 and 1998. The value peaked in 1996 with HK\$ 7848 million, falling to HK\$ 7304 million and HK\$ 5635 million in 1997 and 1998.

The important sources of Hong Kong import denim fabric were the Chinese Mainland, China Taiwan, South Korea, Japan, USA, India and Macao. They supplied more than 94% of Hong Kong denim fabric imports during the investigation period.

The Chinese Mainland, replacing China Taiwan as the leading supplier since 1995, accounted for 36.8% of Hong Kong total imports of denim fabric with a value of HK\$ 2072 million in 1998.

6.4 Hong Kong denim fabric imports



China Taiwan was the second most important supplier in 1998, and exported HK\$ 1951 million worth of denim fabric to HK, accounting for 34.6% of Hong Kong total denim fabric imports.

South Korea was the third most important supplier, holding another 10.1%. It was followed by Japan (6.6%), USA (2.3%), India (1.8%) and Macao (1.8%).

The average import price ranged from HK\$ 6.4 to HK\$ 7.7 per square meter. Imports from the Chinese Mainland were around HK\$ 7.2 to HK\$ 9.2 per square meter, a little higher than the average import price. Those from China Taiwan were at HK\$ 5.0 to HK\$ 6.0 per square meter. Denim fabrics from the US were imported at the highest price, which was about HK\$ 25 per square meter. Prices from Japan, Macao and India were HK\$ 21, HK\$ 13.3, and HK\$ 9.0 per square meter respectively in 1998.

6.1.2 Denim apparel imports

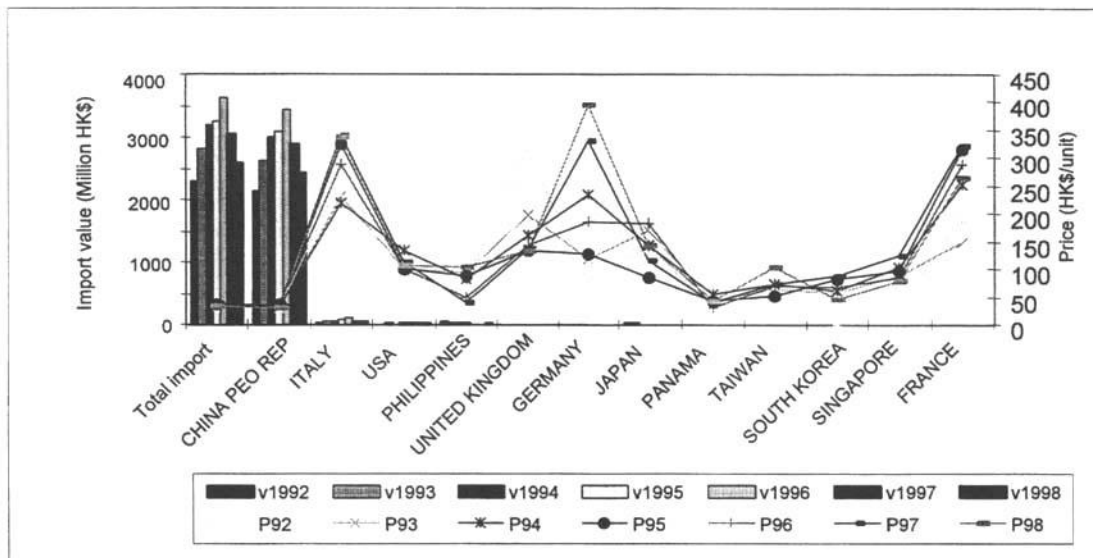
Hong Kong imported HK\$ 2301 million worth of denim apparel in 1992. The import value peaked in 1996 with HK\$ 3626 million, growing by 14.4% per year from 1992 to 1996 on the average. However, it fell sharply in the next two years, dropping to HK\$ 3058 million and HK\$ 2588 million in 1997 and 1998.

The Chinese Mainland played a dominant role in the Hong Kong denim apparel import market. About 94% of Hong Kong denim apparel imports were from the Chinese Mainland between 1992 and 1998.

Compared with the overwhelming share of the Chinese mainland, other suppliers were insignificant, such as Italy (2.0%), USA (1.4%), and Philippines (0.6%).

The average import price of denim apparel was at HK\$ 31 to 37 HK\$ per unit during the investigation period. Denim apparel with the lowest import price was from the Chinese Mainland, which was at HK\$ 30-odd per unit. Imports from Panama, South Korea and Singapore were priced at HK\$ 40 to HK\$ 80 per unit, while those from Italy had the highest price, which was over HK\$ 300 per unit.

6.5 Hong Kong denim apparel imports



6.2 EXPORTS

Hong Kong, as the second most important supplier in the US market and the fourth largest non-EU supplier in the EU market, played an important role in the international denim trade arena.

Hong Kong's total denim product exports (domestic exports and re-exports) amounted to HK\$ 13.9 billion in 1992 but fell to HK\$ 11.4 billion in 1998. The ratio of domestic exports was down from 49.2% in 1992 to 32.9% in 1998; while that of re-exports increased sharply from 50.8% in 1992 to 67.1% in 1998 with an annual average growth rate of 12.4%, accounting for 67.1% of Hong Kong's total exports.

6.2.1 Hong Kong denim products domestic exports

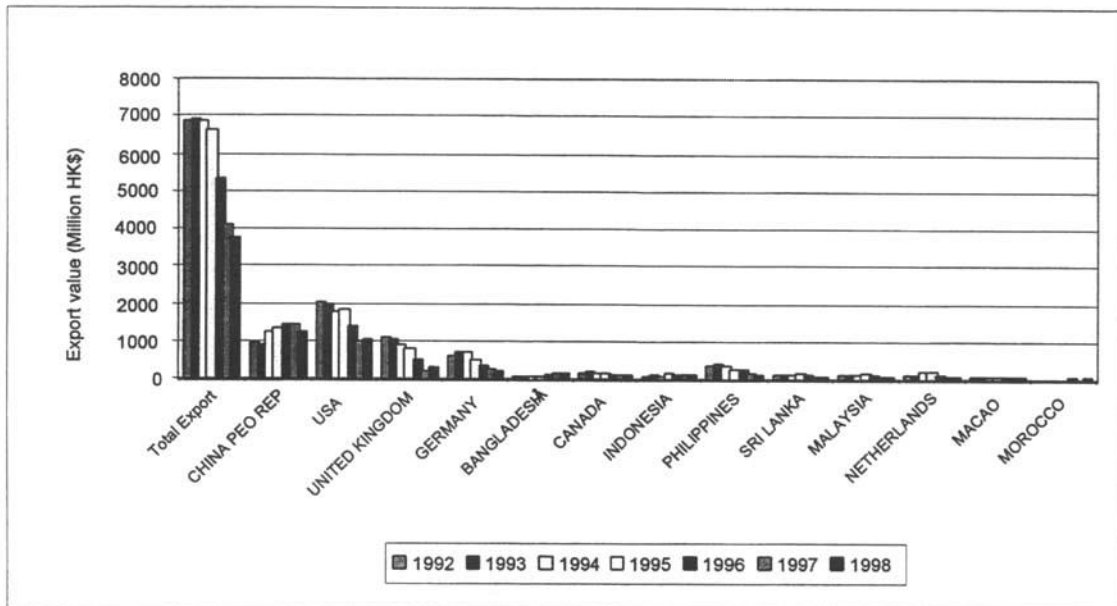
Hong Kong domestic exports went down rapidly from HK\$ 6844 million in 1992 to HK\$ 3733 million in 1998. The following 11 countries received 89.1% of Hong Kong domestic exports in 1998. (See Fig. 6.6)

The Chinese Mainland was again the most important consumer, importing 32.8% of Hong Kong total domestic exports. With an annual growth rate of 11.8%, Hong Kong exports to the Chinese Mainland increased from HK\$ 944 million in 1992 to HK\$ 1450 million in 1997. However, they slumped to HK\$ 1225 million in 1998.

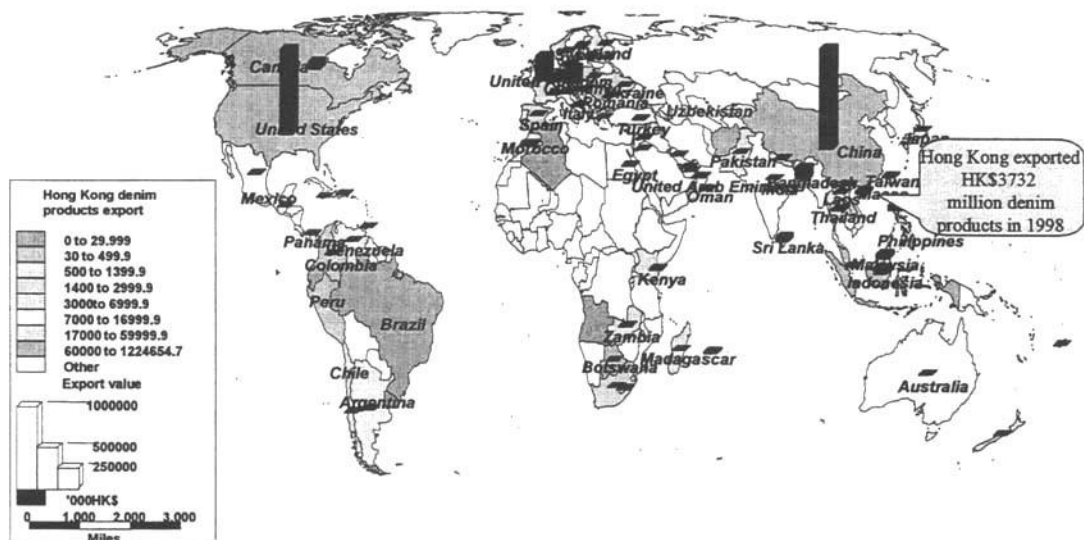
The US captured 28.1% of Hong Kong domestic exports in 1998. It was once the most important market for Hong Kong before 1996. However, with the quick emergence of the Chinese mainland and its own decline trend, it reduced to the No. 2 place. In 1998, it imported HK\$ 1048 million worth of denim products from Hong Kong, much lower than the 1992 level, which was HK\$ 2009 million.

In 1992 and 1993, the United Kingdom was the second most important consumer after the US. It then experienced a continuous drop in the following years, by 8.7% in 1995, 41.8% in 1996 and 60.3% in 1997. Though exports to the United Kingdom rebounded by 57.5% in 1998, amounting to HK\$ 294 million, its market share was

6.6 Hong Kong denim product exports



6.7 Hong Kong denim product exports



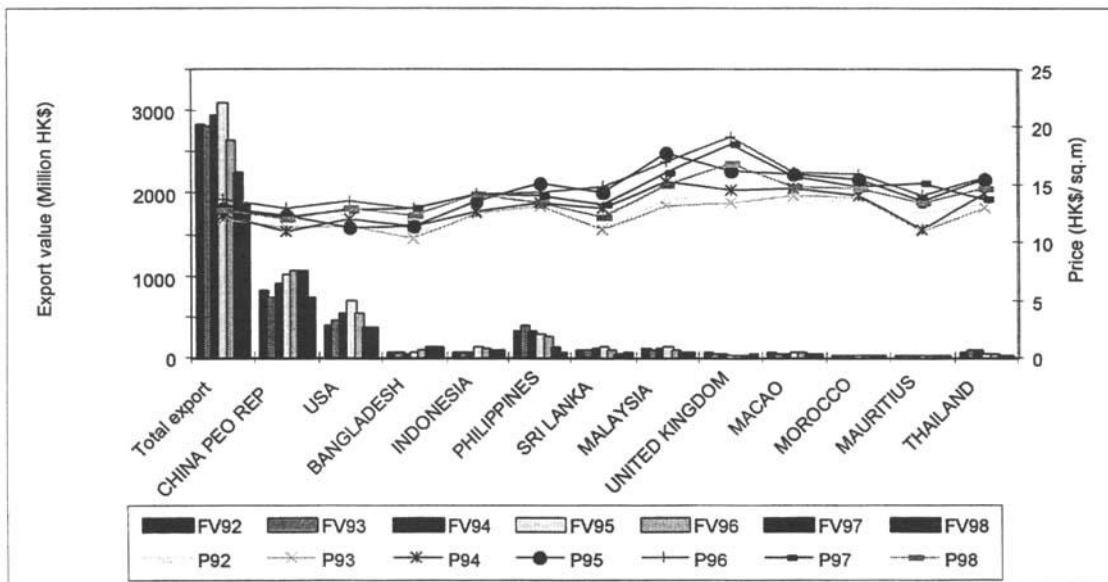
much smaller comparing with the top two suppliers, and it only accounted for 7.9% of Hong Kong domestic exports.

The other major consumers of Hong Kong denim products in 1998 were Germany (5.1%), Bangladesh (3.7%), Canada (2.4%), Indonesia (2.1%), Philippines (2.0%), Sri Lanka (1.8%), Malaysia (1.7%) and Netherlands (1.4%).

6.2.1.1 Denim fabric domestic exports

Though the export value was down from HK\$ 2820 million in 1992 to HK\$ 1859 million in 1998, its proportion of the total domestic exports was up from 41.2% to 49.8%.

6.8 Hong Kong denim fabric domestic exports



The Chinese Mainland was the most important market for Hong Kong denim fabric, accounting for 39.9% in 1998. Exports to the Chinese mainland grew by 4.9% every year on average between 1992 and 1997. The year 1998 saw the slump by 30.4% over 1997, decreasing from HK\$ 1.1 billion to HK\$ 741 million.

The US was the second most important market. Dropping from the peak value of HK\$ 687 million in 1995, its value was only HK\$ 362 million in 1998, accounting for 19.5% of Hong Kong denim fabric exports.

Bangladesh, which imported 7.3% in 1998, was the third most important denim fabric destination for Hong Kong. Its imports from HK grew from HK\$ 57 million in 1992 to HK\$ 136 million 1998

The average export price of Hong Kong denim fabric was HK\$ 12.0 to 13.8 HK\$ per square meter during the investigation period.

6.2.1.2 Denim apparel domestic exports

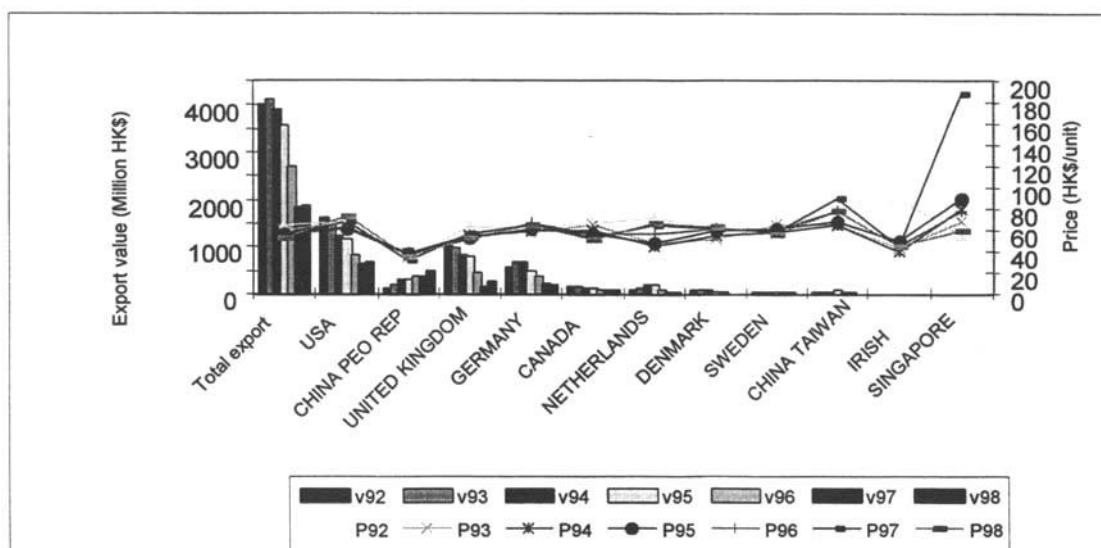
Hong Kong's domestic exports of denim apparel slumped from HK\$ 4024 million in 1992 to HK\$ 1873 million in 1998, a drop of 46.5%. Coinciding with this downtrend, its proportion of the total domestic exports also went down from 58.8% to 50.2%. (See Fig. 6.9)

The most important market for Hong Kong denim apparel was the US, which absorbed 36.6% of Hong Kong domestic exports in 1998. Its imports from HK reduced sharply from HK\$ 1621 million in 1992 to HK\$ 686 million in 1998.

Another important market was the Chinese Mainland, growing from HK\$ 120 million in 1992 to HK\$ 483 million in 1998 with an annual average growth rate of 50.6%. It captured 25.8% of Hong Kong denim apparel exports in 1998. Compared with the 3.0% market share in 1992, this shows that the Chinese mainland has become crucial to HK denim apparel exports in the recent years.

Though the United Kingdom and Germany ranked third and fourth, exports to these two markets fell rapidly between 1992 and 1998. The former imported 13.5% of Hong Kong denim apparel exports in 1998, dropping from HK\$ 999 million in 1992 to HK\$ 252 million in 1998. The latter held another 10.3% in 1998, also decreasing sharply from HK\$ 567 million in 1992 to HK\$ 192 million in 1998.

6.9 Hong Kong denim apparel domestic exports



The other major importers in 1998 included Canada (3.7%), Netherlands (2.8%), Denmark (0.9%), Sweden (0.8%), China Taiwan (0.7%), Ireland (0.7%) and Singapore (0.6%).

Hong Kong-made denim apparel is competitive in view of its excellent workmanship, flexibility, responsiveness and sensitivity to fashion trends. The average export price was at HK\$ 65.1 per unit in 1992. Between 1992 and 1998, the price decreased year by year and became HK\$ 53.9 per unit in 1998. The sharp rise of lower-priced denim apparel exports to the Chinese mainland mainly explains the continuous drop of the average export price.

6.2.2 Re-exports⁴

The peak of Hong Kong denim product re-exports appeared in 1996 with a value of HK\$ 10.58 billion with an average growth rate of 9.9% per year between 1992 and 1996. However, the value reduced in 1997 and 1998, amounting to HK\$ 7620 million in 1998.

As mentioned earlier, re-exports have played a more and more important role in HK denim product trade. They accounted for 67.1% of Hong Kong's total exports in 1998.

6.2.2.1 Hong Kong denim products re-export by market

The major markets for Hong Kong denim product re-exports were the Chinese Mainland, Panama, Japan, Bangladesh, Philippines, Egypt, the US, Australia, Indonesia and Sri Lanka. (See Fig. 6.10 & 6.11)

The Chinese Mainland was the most important market for Hong Kong denim product re-exports. It imported HK\$ 4493 million worth of denim products in 1998, accounting for 59.0% of Hong Kong's total re-exports. Hong Kong re-exports to the

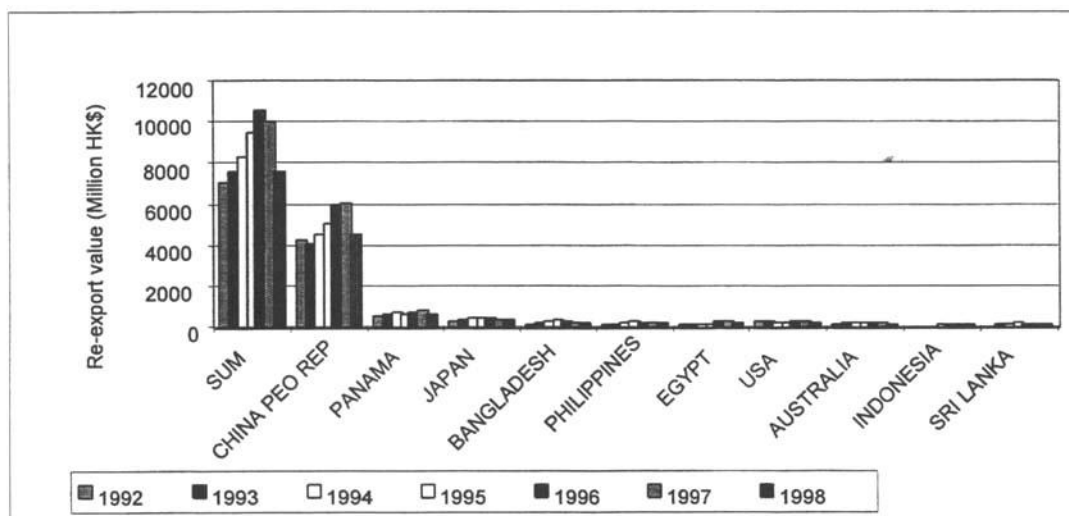
⁴ The definition of a Hong Kong Re-export is that it is a product which has previously been imported into Hong Kong and which is re-exported without having undergone in Hong Kong a manufacturing process which has changed permanently the shape, nature, form or utility of the product (TDC).

Chinese Mainland peaked in 1997 with HK\$ 6032 million or 60.4% of Hong Kong total re-exports. Between 1992 and 1997, the denim products exported to the Chinese Mainland from other countries via Hong Kong increased by 8.4% per year on the average. However, the value fell by 25.5% in 1998. The second most important Hong Kong re-export market was Panama, which held 8.8% of Hong Kong re-exports in 1998. Growing from HK\$ 507 million in 1992, re-exports to Panama reached HK\$ 855 million in 1997 and then declined to HK\$ 670 million in 1998.

Japan ranked the third with HK\$ 317 million or 4.2% of Hong Kong total denim product re-exports in 1998. Re-exports to Japan reached their highest level in 1994 with HK\$ 483 million.

Bangladesh, the Philippines and Egypt were the other three important markets, accounting for 2.3%, 2.3% and 2.1% respectively in 1998. These three re-export markets grew rapidly between 1992 and 1998. Re-exports to Bangladesh rose from

6.10 Hong Kong denim product re-exports by major markets



6.11 Hong Kong denim product re-exports by market



HK\$ 94 million in 1992 to HK\$ 178 million in 1998 at an annual average growth rate of 14.8%. Those to the Philippines and Egypt enjoyed a faster growth rate of 22.0% and 21.3% per year from 1992 to 1998, reaching HK\$ 176 million and HK\$ 156 million respectively in 1998.

Other re-export markets included the US (1.8%), Australia (1.6%), Indonesia (1.4%) and Sri Lanka (1.1%). With an average reducing rate of 7.3% every year, re-exports to the US fell from HK\$ 280 million in 1992 to HK\$ 137 million in 1998. By sharp contrast, Indonesia experienced the strongest growth between 1992 to 1998, increasing from HK\$ 33 million in 1992 to HK\$ 106 million in 1998 with an annual average growth rate of 37.1%.

The ten above countries captured 79%~85% of Hong Kong total re-exports between 1992 to 1998.

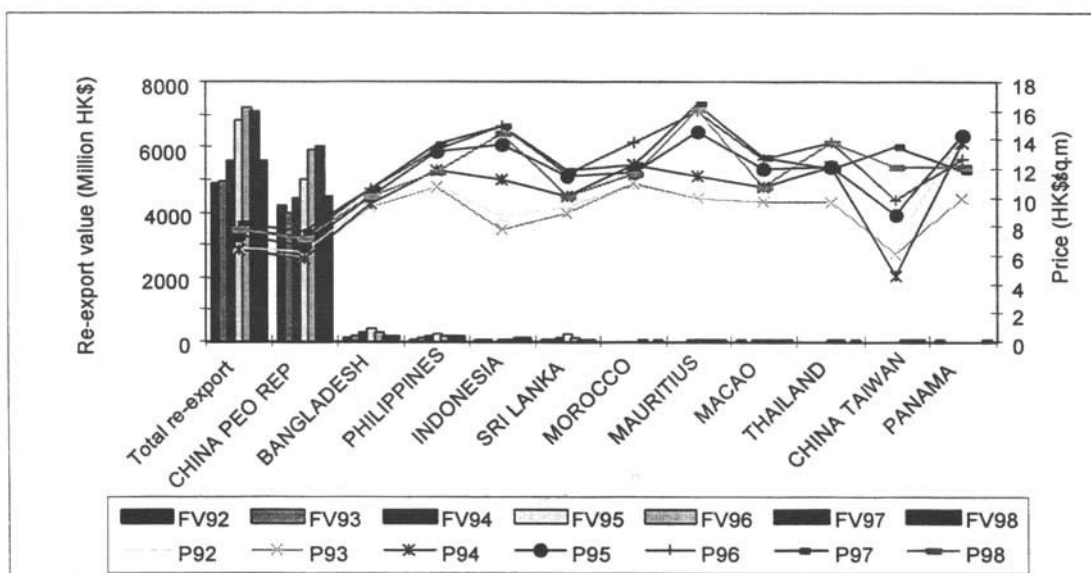
A. Denim Fabric Re-export by Market

Hong Kong denim fabric re-exports peaked in 1996 with a value of HK\$ 7227 million. In 1997, the value fell to HK\$ 7115 million. It further slumped by 22.2% to HK\$ 5539 million in 1998. Unlike the domestic export composition, denim fabric took a dominant share, which was 72.7% of the total re-exports in 1998.

The Chinese Mainland was the most important market, absorbing 80.6% of Hong Kong denim fabric re-exports in 1998. Re-exports to the Chinese Mainland grew from HK\$ 4198 million in 1992 to HK\$ 6000 million in 1997. However, the re-export value shrank to HK\$ 4463 million in 1998.

Bangladesh and the Philippines were the other two major markets for Hong Kong denim fabric re-exports, accounting for 3.2% and 3.0% respectively in 1998. Indonesia and Sri Lanka held another 1.9% and 1.5% in 1998. Other markets included Morocco (0.8%), Mauritius (0.7%), Macao (0.7%), Thailand (0.7%), China Taiwan (0.6%) and Panama (0.6%). Exports to most markets shrank between 1997 and 1998, causing the overall denim fabric re-exports to decline sharply.

6.12 Hong Kong denim fabric re-exports by market



The average re-export price was HK\$ 7.7 per square meter in 1998. Those to the Chinese Mainland were around HK\$ 7.2 per square meter, which was the lowest price of all Hong Kong denim fabric re-exports. The denim fabrics re-exported to Bangladesh, Philippines, Sri Lanka and Macao were about HK\$ 10 per square meter; those to Philippines and Morocco were more than HK\$ 11.6 per square meter, and those to Indonesia, Mauritius, Thailand, Taiwan and Panama were over HK\$ 12 per square meter in 1998.

B. Denim Apparel Re-Export by Market

The major markets for Hong Kong denim apparel re-exports were Panama, Japan, Egypt, USA and Australia. (See Fig. 6.13)

Panama, holding 30.6% of Hong Kong denim apparel re-exports, was the leading importer in 1998, and re-exports to Panama reached a peak of HK\$ 847 million in 1997.

Japan was the second most important market for Hong Kong denim apparel re-exports, accounting for a 14.6% market share. Re-exports peaked in 1994 with 685 million and then dropped to HK\$ 303 million in 1998.

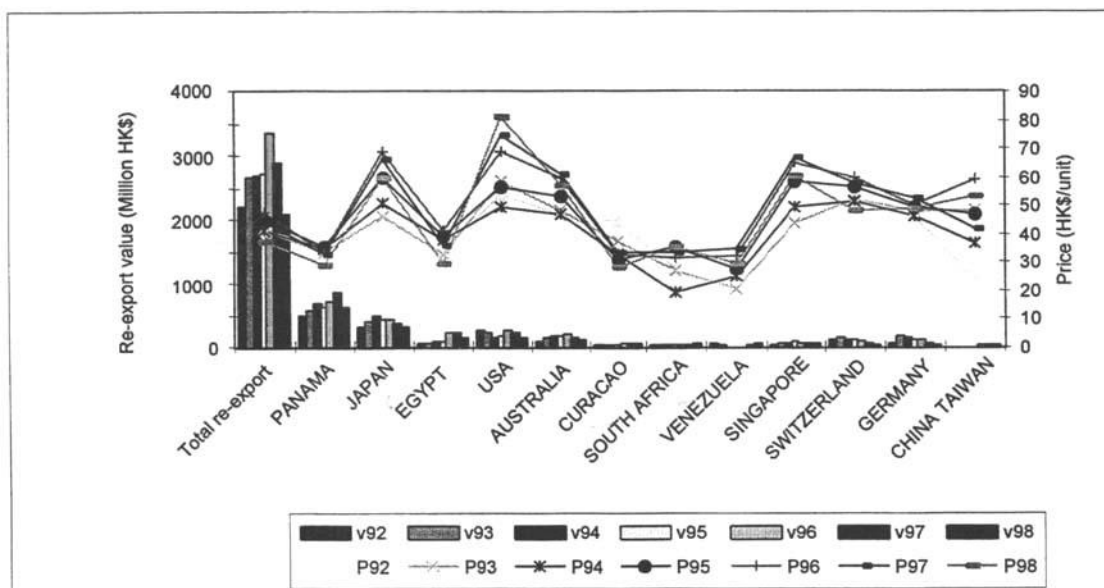
Egypt received 7.4% of Hong Kong denim apparel re-exports in 1998. Such re-exports to Egypt grew from HK\$ 64 million in 1992 to HK\$ 227 million in 1997. In 1998, the value slumped to HK\$ 153 million.

6.3% of Hong Kong re-exported denim apparel were to the US in 1998. The re-export value was not steady between 1992 and 1998. It hit a low in 1998 when only HK\$ 130 million worth of denim apparel was re-exported to the US. The peak appeared in 1996 with HK\$ 276 million.

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

Other re-export destinations were South Africa, Venezuela and Singapore, capturing 2.1% to 2.5% of Hong Kong denim apparel re-exports in 1998 each. The Chinese mainland played an insignificant role here, only accounting for 1.4% of Hong Kong denim apparel re-exports in 1998.

6.13 Hong Kong denim apparel re-exports by market



The average price of Hong Kong denim apparel re-exports was about HK\$ 37 to HK\$ 44 per unit between 1992 and 1998. Denim apparel re-exports to Panama, Egypt and Venezuela were around HK\$ 30 per unit, to Japan and Singapore were at HK\$ 60-odd per unit, and to the US over HK\$ 80 per unit.

6.2.2.2 Hong Kong denim product re-exports by origin

The important origins of Hong Kong denim product re-exports were the Chinese Mainland, China Taiwan, South Korea, Japan, the US and Macao. From 1992 to 1998, these countries (areas) supplied around 95% of Hong Kong total denim product re-exports. (See Fig. 6.14)

Among these suppliers, the Chinese Mainland was the most important origin, supplying 52.5% of Hong Kong denim product re-exports in 1998. Re-exports from the Chinese Mainland increased from HK\$ 3176 million in 1992 to HK\$ 5692 million in 1996, with an average growing rate of 15.8% per year. However, the value reduced by 16.3% per year after 1996 and became HK\$ 4011 million in 1998.

The second most important supplier, China Taiwan, held a 28.3% share in 1998. It supplied HK\$ 2310 million worth of denim products to Hong Kong for re-exportation in 1992, peaking in 1996 with HK\$ 3026 million. In 1998, the value declined to HK\$ 2163 million.

South Korea was the third most important source. Re-exports from South Korea reached HK\$ 536 million in 1998 with a market share of 7.0%.

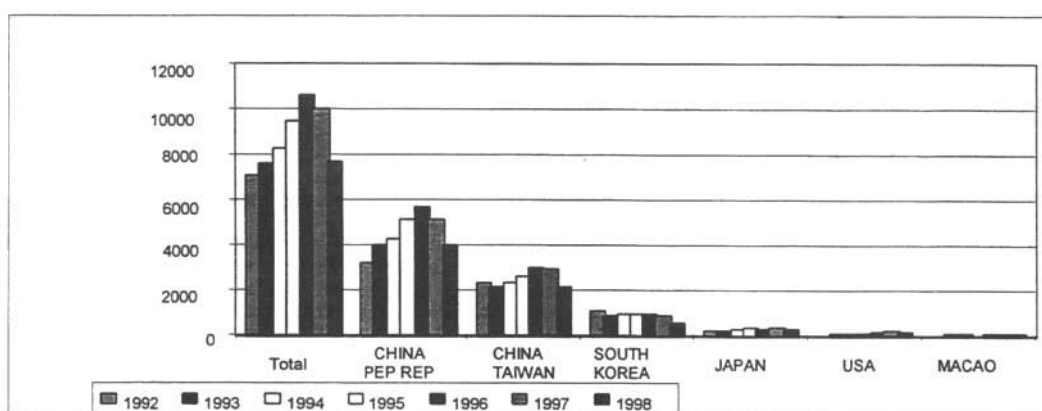
Other major sources included Japan (3.9%), USA (2.0%) and Macao (0.9%).

A. Denim Fabric Re-exports by Origin

China Taiwan was the most important source, accounting for 38.9% of Hong Kong denim fabric re-exports in 1998, with a value of HK\$ 2163 million. The re-export value reached a peak in 1996 with HK\$ 3026 million. (See Fig. 6.16)

The Chinese mainland ranked second with a market share of 35.8% in 1998. The peak appeared in 1995 with HK\$ 2419 million, dropping to HK\$ 1990 million in 1998.

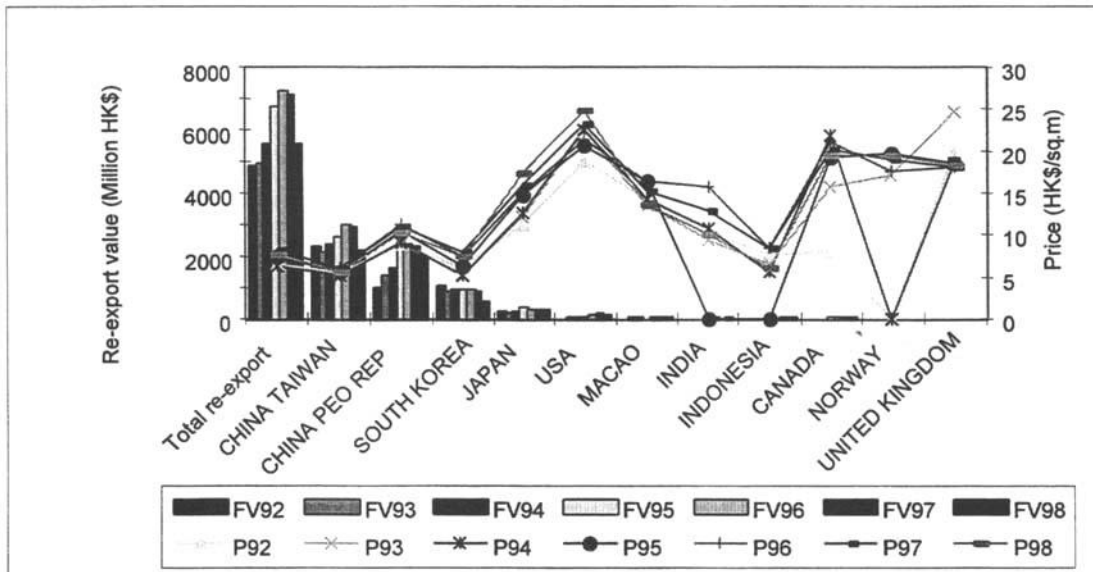
6.14 Hong Kong denim product re-exports by major origins



6.15 Hong Kong denim product re-exports by origin



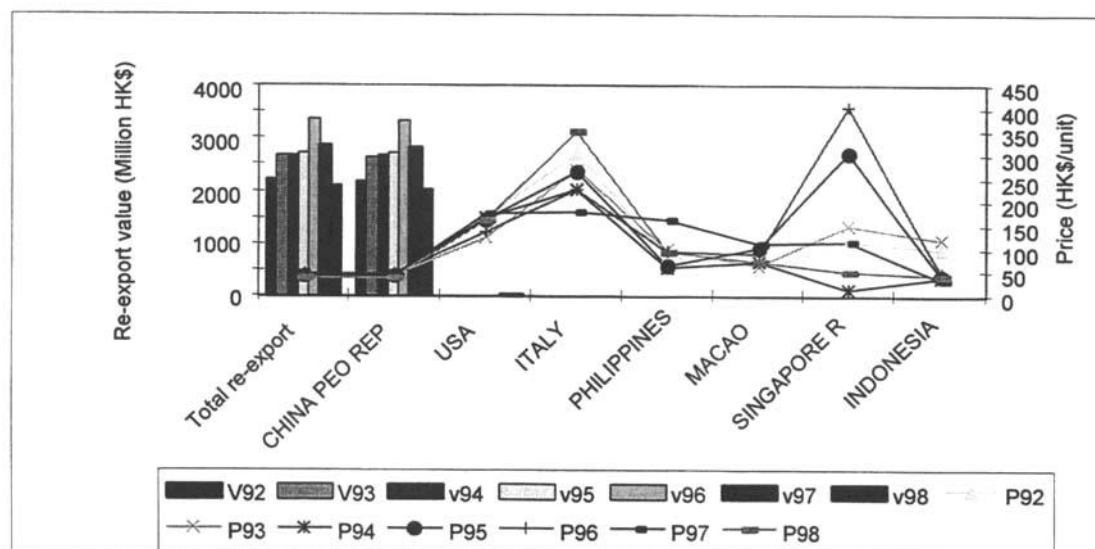
6.16 Hong Kong denim fabric re-exports by origin



Hong Kong denim fabric re-exports from South Korea experienced a continuous downturn in the past few years. With an average decrease of 8.1% per year, the denim fabric re-exports from South Korea fell from HK\$ 1036 million in 1992 to HK\$ 535 million in 1998. Therefore, though it was the third most important source for HK denim fabric re-exports, its market share was much smaller, which was about 9.6% in 1998.

Japan held another 5.4% of Hong Kong denim fabric re-exports in 1998. The US accounted for 1.9% and Macao 1.2%.

6.17 Hong Kong denim apparel re-exports by origin



The average price of Hong Kong denim fabric re-exports was around HK\$ 6.3 to HK\$ 8.1 per square meter between 1992 and 1998. The denim fabrics from China Taiwan were HK\$ 5.2 to HK\$ 6.1 per square meter, from the Chinese Mainland were HK\$ 9.0 to HK\$ 11.1 per square meter and from South Korea, India and Indonesia were less than HK\$ 10 per square meter. The denim fabrics from Japan, USA, Canada, Norway and the United Kingdom were at a higher price, over HK\$ 17 per square meter.

B. Denim Apparel Re-exports by Origin

The Chinese Mainland took the lion's share as the single most important source for Hong Kong denim apparel re-exports. Though re-exports from the Chinese mainland decreased sharply from HK\$ 3303 million in 1996 to HK\$ 2021 million in 1998, it still accounted for 97.0% of Hong Kong denim apparel re-exports. (See Fig. 6.17)

Another supplier of relative importance was the US, which supplied HK\$ 45 million worth of denim apparel in 1998, accounting for 2.1%.

The average price of denim apparel from the Chinese Mainland was around HK\$ 36 to 47 per unit, much lower than those from the US and Italy which were HK\$ 160 and HK\$ 350 per unit respectively. The denim apparel from the Philippines, Macao, Singapore and Indonesia were sold at HK\$ 95, 71, 50 and 43 per unit respectively in 1998

REFERENCE

1. Fong, W.S., Denim developments. Textile Asia, 1987, p.186-189.