Clothing Industry in Hong Kong

Overview

- Starting 1 January 2009, textile and clothing products originating in China no longer require any import licence or surveillance document before entering the EU. Meanwhile, textile and clothing shipments to the US made on or after 1 January 2009 are no longer subject to any quotas.

- Under the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA), the mainland has given all products of Hong Kong origin, including clothing items, tariff-free treatment starting from 1 January 2006. According to the stipulated procedures, products which have no existing CEPA rules of origin will enjoy tariff-free treatment upon applications by local manufacturers and upon the CEPA rule of origins being agreed and met.

- Hong Kong clothing companies are reputable for ODM and OEM production. They are able to deliver quality clothing articles in short lead time, as foreign importers and retailers request clothing suppliers to tighten up supply chain management to ensure the ordered merchandise reaching the store floor at the right time. Increasingly, Hong Kong clothing companies, the established ones in particular, have shown enthusiasm for brand promotion.

- Hong Kong’s total exports of clothing decreased by 5% year-on-year in the first half of 2018, when re-exports fell on par and domestic exports dropped by 11%. In January-June 2018, Hong Kong's clothing exports to the US and EU, the two largest markets that accounted for nearly 60% of the total, fell by 9% and 7%, respectively.

Industry Features [1]

<table>
<thead>
<tr>
<th>No. of Establishments</th>
<th>603 (manufacturing) – Mar 2018</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>14,290 (import-export) – Dec 2017</td>
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<tr>
<td>Employment</td>
<td>4,027 (manufacturing) – Mar 2018</td>
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<tr>
<td></td>
<td>77,290 (import-export) – Dec 2017</td>
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</tbody>
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Source: Quarterly Report of Employment and Vacancies Statistics

The clothing industry is a major manufacturing sector of Hong Kong. It is one of the largest manufacturing employers in Hong Kong, with 603 establishments hiring 4,027 workers as of March 2018.

Hong Kong's geographic boundary has never constrained the development of the forward-looking clothing industry. The majority of clothing manufacturers have set up offshore production facilities in an attempt to reduce operation costs. Relocation of
production facilities offshore has, however, resulted in a largely steady decline in the number of clothing manufacturers in Hong Kong.

Hong Kong is not only a leading production centre but also a hub for clothing sourcing globally. Companies doing garment trade in Hong Kong are experienced in fabrics procurement, sales and marketing, quality control, logistic arrangements, clothing designs and international and national rules and regulations. The professionalism that they command and the combined services offered are not easily matched elsewhere. They altogether form one of the largest groups involved in import-export trade in Hong Kong.

Performance of Hong Kong’s Exports of Clothing [2]

In recent years, traditional markets, such as the US, the EU and Japan, have rendered clothing exporters from developing countries, including ASEAN and Bangladesh, more preferential market access, which has in turn impaired the competitiveness of Hong Kong and mainland manufacturers. Along with rising labour costs and stricter environmental regulations on the Chinese mainland, an increasing number of Hong Kong and mainland clothing manufacturers have relocated their production of lower-end and mass products to Southeast Asian countries like Bangladesh, Vietnam, Cambodia and Indonesia. Their manufacturing operations on the mainland are now focused on more sophisticated and higher value-added items or urgent orders.

Hong Kong’s total exports of clothing fell by 5% year-on-year in the first half of 2018 after a 7% decrease in 2017. In January-June 2018, Hong Kong’s domestic exports of clothing slid by 11%, while re-exports fell by 5% on par with total clothing exports.

Among the major export destinations, Hong Kong’s clothing exports to the US decreased by 9% in the first six months of 2017, while those to the EU were down by 7%. Clothing exports to major EU markets including Germany, the UK, the Netherlands and France fell by 5-18%. However, clothing exports to Italy rose by 21%. Taken together, sales to the US and the EU accounted for nearly 60% of Hong Kong’s total clothing exports. Meanwhile, sales to Japan grew by 3%, whereas the Chinese mainland market showed a 7% increase in January-June 2018.

Product wise, Hong Kong’s exports of woven wear fell by 5% year-on-year in the first half of 2018. Exports of knitted wear increased by 1%, whereas clothing accessories and other apparel articles dropped by 5% and 7%, respectively.

<table>
<thead>
<tr>
<th>(HK$ billion)</th>
<th>2016 Value</th>
<th>2017 Value</th>
<th>2018 Value</th>
<th>Growth %</th>
<th>Growth %</th>
<th>Growth %</th>
</tr>
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<tbody>
<tr>
<td>Domestic exports</td>
<td>0.5</td>
<td>0.3</td>
<td>0.1</td>
<td>-40</td>
<td>-39</td>
<td>-11</td>
</tr>
<tr>
<td>Re-exports of Chinese mainland origin</td>
<td>121.1</td>
<td>112.6</td>
<td>48.5</td>
<td>-15</td>
<td>-7</td>
<td>-5</td>
</tr>
<tr>
<td>Total exports</td>
<td>121.6</td>
<td>112.9</td>
<td>48.7</td>
<td>-15</td>
<td>-7</td>
<td>-5</td>
</tr>
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</table>
Sales Channels

Hong Kong's clothing manufacturers have comprehensive knowledge about sourcing and products. They are able to understand and cater for the preferences of the dispersed customer bases. Exporters also have good knowledge of international and national rules and regulations governing clothing exports, such as rules of origin, tariff rates and documentation requirements. Cut, make and trim (CMT) arrangements are common, although many Hong Kong manufacturers have moved to higher value added activities such as design and brand development, quality control, logistics and material sourcing.

A few well-established local manufacturers have entered into the retailing business, either locally or in overseas markets. Many of them have retail networks with their own labels in major cities around the world including Beijing, London, New York, San Francisco, Shanghai, Singapore, Sydney, Taipei and Tokyo. Some well-known
manufacturing retailers include Baleno, Bossini, Crocodile, Episode, Esprit, G-2000, Giordano, I.T, JEANSWEST and Moiselle.

As a global sourcing hub in Asia, Hong Kong attracts a number of international trading houses and major retailers. Buyers sourcing from Hong Kong include American and European department stores (e.g. Macy’s, JCPenney, Federated, Karstadt Quelle, C&A), discount stores (e.g. Sears, Target and Carrefour), specialty chains (e.g. The Gap, The Limited), mail order houses (e.g. Otto and Great Universal Stores) and e-tailers (Zalora and YOOX). Many international premium designer labels – such as Calvin Klein, Donna Karen, Ralph Lauren, Tommy Hilfiger and Yves Saint Laurent – source clothes in Hong Kong through their buying offices or other intermediaries.

Hong Kong’s fashion designers have been gaining worldwide reputation for their professional expertise, sensitivity to current trends and ability to blend commercialism with innovation. In February 2018, three Hong Kong fashion designer labels, Harrison Wong, Anveglosa, HEAVEN PLEASE+ were invited to take part in New York Fashion Week to showcase their Fall/Winter 2018 collections at the show of Fashion Hong Kong during New York Fashion Week. In addition, medium to high-priced fashion clothing bearing Hong Kong designer labels is being sold/has been sold in renowned department stores and e-tailing platforms such as Bloomingdale’s, Ferd.com, Net-A-Porter and Macy’s.

In the 2016-17 Budget announced on 24 February 2016, the then Financial Secretary John Tsang unveiled that HK$500 million has been earmarked to further the development of the fashion industry through (a) strengthening the promotion of local fashion designers and emerging fashion brands in Hong Kong and overseas; (b) establishing an incubation programme for fashion designers, drawing on the experience of other fashion capitals like London, New York and Seoul; and (c) setting up a resource centre to provide technical training and support for young designers.

Trade fairs and exhibitions remain common places for buyers and suppliers of clothing to congregate. To establish connections and explore market opportunities, Hong Kong manufacturers and traders have involved themselves actively in international shows led by the Hong Kong Trade Development Council (HKTDC), including the ones in Beijing, Budapest, Chengdu, Dalian, Dubai, Dusseldorf, Hong Kong, Moscow, Mumbai, Paris, Tokyo, Warsaw, Istanbul and Jakarta. ‘Hong Kong Fashion Week’ is organised twice a year and attracts international suppliers and buyers to participate in the exhibition. Organised by HKTDC, ‘World Boutique, Hong Kong’ was the first independent event in Hong Kong dedicated to promoting designers’ collection and brands from around the world. To better align the event with the international fashion trade calendar, the fair, from 2016 onwards, was rescheduled from January to September and re-named CENTRESTAGE, serving as a dedicated marketing platform for international and regional brands, ready-to-wear and designer labels to showcase their collections.

Industry Trends

Online shopping is increasingly popular in Hong Kong’s major clothing markets, including the Chinese mainland where there are 533 million online shoppers in 2017. Across the board, clothing is among the most purchased items online in the Chinese mainland where online retail sales of clothing saw a 20.3% growth last year. Also, a recent HKTDC survey indicates that Chinese consumers are receptive to online clothing shopping, thanks to the wide-ranging brand and design choices. To many Chinese shoppers, the internet has already evolved from a “tool” to a “lifestyle”.
The growing variety of online shopping sites such as Taobao (www.taobao.com) in China and ASOS Marketplace in the UK (marketplace.asos.com), plus the bloom of group shopping and mobile retailing, is expected to boost online shopping and sales further. The continuous improvement of third party payment such as Alipay by Alibaba Group and WeChat Pay by Tencent also helps popularise online shopping. It is estimated that global retail e-commerce sales will hit US$4.5 trillion by 2021, up from the 2017 level of US$2.3 trillion. This trend has also encouraged the development of some online shopping technologies such as virtual fitting, video shopping and mobile snapshot for clothing.

Private or house labels, in essence, have become an increasingly effective marketing tool among garment retailers, especially when many consumers in developed markets still remain conservative in view of the nascent economic recovery. In order to differentiate as well as upgrade the image of their products, major retailers have started to put a stronger emphasis on their own labels. Renowned retailers such as H&M, Marks & Spencer, Orsay, Palmers, Pimkie, Springfield and Kookai have owned their private labels. As consumers desire to have private labels on everyday garments like jeans, accessories and T-shirts, the doors are also open to the supply of these clothing items to private label owners.

Consumers are becoming more practical, thoughtful and socially conscious. The drive to embed sustainability within the clothing industry will likely bring forth new materials and innovative ways of production, while the concept of a circular economy will become more widely applied throughout the supply chain by committing to such ideas as end-of-life collection and closed-loop fashion products to enable the reuse and recycling of textile fibers and fabrics. Against this backdrop, clothing manufacturers have increasingly become certified to traceability standards such as OE Blended, OE 100 standard and the Global Organic Textile Standard (GOTS). Meanwhile, the number of GOTS certified facilities demonstrated a 8% increase from 4,642 in 2016 to 5,024 facilities across 62 countries last year. Reputable clothing stores like Nike, Adidas, H&M, C&A, Walmart, Anvil Knitwear also have responded by expanding their assortment of sustainable clothing.

The rapid expansion of mainland’s economy has drawn the attention of both Hong Kong and foreign clothing companies. While some well-established foreign players including C&A, Uniqlo and H&M are seeking to expand in the lower-tier cities, those which are not yet present on the mainland are working hard to mark their inroads. For instance, Hollister and Victoria’s Secret have opened flagship stores in Causeway Bay, leveraging Hong Kong as a springboard to go across the border. Going hand-in-hand with the market expansion, Chinese consumers are becoming more fashionable and brand-conscious.

CEPA

On 18 October 2005, the mainland and Hong Kong agreed to further liberalise the mainland market for Hong Kong companies under the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA). Along with other products of Hong Kong origin, the mainland has given all products of Hong Kong origin, including clothing items, tariff-free treatment starting from 1 January 2006. According to the stipulated procedures, products which have no existing CEPA rules of origin, will enjoy tariff-free treatment upon applications by local manufacturers and upon the CEPA rule of origins being agreed and met. But non-Hong Kong made clothing products will remain subject to tariff rates of 7-25% when entering the mainland.
The promulgated rules of origin for clothing items to benefit from CEPA's tariff preference are basically similar to the existing rules governing Hong Kong's exports of these products. Generally speaking, the principal manufacturing process of cut-and-sewn garment is sewing of parts into garments. If linking and/or stitching is/are required, such process/processes must also be done in Hong Kong. For piece-knitted garment, if it is manufactured from yarn, the principal process is knitting of yarn into knit-to-shape panel. If the piece-knitted garment is manufactured from knit-to-shape-panels, the principal process is linking of knit-to-shape panels into garment. If stitching is required, it must also be done in Hong Kong. Detailed information is available from the following hyperlink: http://www.tid.gov.hk/english/cepa/tradegoods/files/mainland_2018.pdf.

Product Trends

Consumers in mature markets continue to resume spending on fashion products, but still opt for items that offer comfort, function and value-for-money – and nothing too radical. Longevity remains an important element, while items with recognisable, fashionable brands and decent quality are still highly sought-after.

Childrenswear continue to shape the clothing industry. The global market for children’s wear is forecast to top US$200 billion by 2021. In light of the economic recovery in the developed markets and growing middle class in emerging markets, parents worldwide are becoming more willing and able to pamper their children with more exquisite apparel.

Men are increasingly concerned about the clothes which come to their wardrobes. According to Euromonitor, the men's clothing market is forecast to rise to US$490 billion by 2021, up from US$ 420 billion in 2017. Moreover, men have been spending more on their outfits each year for more than a decade now, thanks partly to the growing popularity of online menswear shopping that is expected to show an average annual sales growth of more than 14% between 2015 and 2020.

Ageing population becomes a common phenomenon in many developed countries in Europe, Japan as well as the US. United Nations projects that population aged 60 or over in more developed regions accounts for 33% of their respective population. Elderly people constitute a major market segment called the ‘silver market’. Supported by savings, social security benefits and pensions, many elderly people have rather strong spending power. A survey conducted by the Japanese government also shows that people who are 60 years old and above possess almost three times the financial assets of those in the 40-50 age group.

The plus-size market has been an area of growth for many years, and the trend is expected to continue, particularly in the US and UK. For instance, it is estimated that the average American woman is about 25 pounds heavier than she was in 1960, whereas nearly 40% of American adults and 19% of youth were obese according to a recent research by the US’s National Center for Health Statistics. To tap the trend, some renowned brands such as Liz Claiborne, Ralph Lauren, Tommy Hilfiger and H&M have already responded by offering merchandise of larger size.

Clothes made of stain-resistant and wrinkle-free fabrics are well received in the market. It is estimated that over a quarter of apparel is now made of easy-care fabrics, and its popularity is expected to continue. While major apparel brands like Dockers and Liz Claiborne have already marketed extensively easy-care clothes, major hypermarkets, like Walmart, also offer more merchandise of such quality.
Thanks to the growing awareness on health and quality of life, the demand for functional clothing is climbing. Along with the rapid development of functional clothing innovation, apparel with various functions can easily be found in the market. Anti-UV, anti-ray, good sweat management, thermal insulation, self-cleaning are examples of how material technology is being applied to the garment industry.

The growth of technology allows consumers to search the internet and find a way to create their own custom made outfits. This is the modern way to express their creativity on making their own fashion designs and clothes. In response, some reputable clothing stores like *Nike*, *Adidas* and *Walmart* have started to sell personalised apparel, while companies in smaller business allow consumers to customise clothes and accessories with their own design online.

Concerns over both dressing green and product comfortability are always on the rise, making clothes made of natural fibers popular among consumers, especially in the developed markets. According to a recent Cotton Incorporated Lifestyle Monitor Survey, 93% of US consumers believed that better quality garments are made from all natural fibers and 65% of them were willing to pay more for it.

Besides, more and more fashion brands adopt green techniques/designs to increase efficiency and reduce waste in the production process. For instance, *H&M* has initiated ‘H&M Conscious’, promising more efficient use of natural resources and adoption of 3Rs principle in production while fashion brand *G-Star RAW* has invented and used in its collections Bionic Yarn, an eco-friendly fabric made of fibers derived from recycled plastic bottles found in the ocean.

[1] Industry statistics cover activities in Hong Kong only.
[2] Since offshore trade has not been captured by ordinary trade figures, these numbers do not necessarily reflect the export business managed by Hong Kong companies.