



HONG KONG FASHION INDUSTRIES IN THE NEW ECONOMY

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ABSTRACT

In this paper, the sustainable competitiveness of the Hong Kong Fashion industry (textile and clothing industry) in the new economy is investigated through a comparison study and model simulation. We find that the competitiveness of Hong Kong will decrease without intensive investment to develop key knowledge-based core competencies in facing intensive competition from developing and developed countries and the threats of regional trade blocs and increased bargaining power of overseas buyers. To capture the business opportunities and develop sustainable competitiveness in the new economy, it is essential for the Hong Kong Textile and Clothing industry to invest and develop knowledge-based core competencies in the areas of product innovation, design and original brand marketing.

KEYWORDS: Hong Kong, textile and clothing industry, competitiveness, Hong Kong fashion industry

INTRODUCTION

In the last few decades, Hong Kong has played an important role in world textile and clothing trade. The total export value in world clothing trade was US\$180 billion in 1998, with 62.5% shared by the top ten exporting countries. China was the world leader, accounting for 16.7% of global export market share, followed by Hong Kong as the second leader with 12.3% market share, and further by Italy, US, Germany, Turkey, Mexico, France, UK and Korea. During that year, Hong Kong's domestic export and re-export amounted to US\$10 billion and US\$13 billion respectively. However, the growth of its total export was 2% between 1992 to 1998,

below the world's average of 5% [1]. In world textile trade, the total export value of textiles was US\$151 billion in 1998, with the top ten countries accounted for 69.3% of the global export market share. The leader was Germany, followed by Hong Kong, Italy, China, Korea, Taiwan, USA, France, Belgium-Luxembourg and Japan. On a compound basis, total textile and clothing exports from Hong Kong increased by 2.9% annually between 1992 to 1998, mainly attributed to the growth in re-exports from Mainland China. Exports to the USA enjoyed the highest compound growth rate, at 7.8% from 1992 to 1998, due to the establishment of the North American Free Trade Agreement [1, 2].

These statistical data suggest that Hong Kong's export power has been declining with stronger dependence on re-export. The intensive competition comes from four major sources: (1) domestic manufacturers within the US, Western Europe and Japan, (2) manufacturers in extended regional trade blocs, (3) manufacturers in developed Asia Pacific Countries, such as China and South Korea, and (4) manufacturers from developing economies such as India. Hong Kong has lost its competitiveness against developing countries in land, operating and labor costs, government support and pricing. Hong Kong does not have the advantages of countries in the extended regional trade blocs in terms of geographic location, cultural proximity, tariff and quota concession, as well as operating costs.

To combat this situation, Hong Kong Textile and Clothing industry players have invested in countries in regional trade blocs and emerging countries, and/or enhanced activities to source from China and developing countries. Few companies have invested in developing design and original brands. Government investments with industrial support mainly focus on developing and sustaining the existing strengths, particularly in developing Internet trading and sourcing capabilities for supply chain management, global sourcing, production management, logistics and distribution management, as well as management of compliance issues. This is certainly a key area for Hong Kong competitiveness. However, whether investment in this area alone is sufficient to sustain the Hong Kong Textile and Clothing industry needs to be explored, especially in the area of new economy.

In the new economy, the rules of competition have changed with a number of features: (1) knowledge as the key resource; (2) information and Internet communication as the major carrier; (3) innovation as the lead [15]. At the same time, consumers are able to obtain a great deal of information and access a large variety of products

through the Internet, which changes their purchasing behavior. Consumers become (a) more values conscious – looking for more added values; (b) more fickle – less brand royal but looking for innovative products and styles; (c) demanding wide products ranges and varieties; (d) looking for customized products and (e) acknowledging brand importance. Therefore, capability in knowledge and technological innovation is becoming the key for success in the new economy.

With the expectation of China's entry to the WTO and the trends of globalization in world trade together with the arrival of the new economy, competition among the major players will be intensified. There is a major concern of how to sustain competitiveness in a more open and free business environment and in a globally networked and knowledge intensive economy. This paper aims to explore this issue by model simulation of the sustainable competitiveness of the Hong Kong fashion Textile and Clothing industry against the major competing countries/regions in terms of strategic investment in developing core competencies.

SUSTAINABLE COMPETITIVENESS OF TEXTILES AND CLOTHING INDUSTRY

The competitiveness of the Textile and Clothing industry in a country or region is not only dependent on the level of core competence of individual enterprises in the industry, but also on the integration of the whole supply chain and relevant supporting industries, as well as internal and external business environments.

The core competencies of individual enterprises are the fundamental elements for the sustainable competitiveness of an industry. Prahalad and Hamel [3] pointed out that the current competitiveness of a company derived from the price/performance of existing products. Future competitiveness derives from the

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ability to build, at low cost and more speedily than competitors. At the level of core competence, the goal is to build world leadership in the design and development of a particular class of product functionality. Jaridan further discussed the hierarchy of competencies and defined the terms of resources, capabilities, competence, and core competencies [4]. He argued that each level in the hierarchy results from integration of lower level elements. Each level encompasses a higher level of value added to the corporation. Core competencies add the highest value since they exploit resources and capabilities at the broadest level across the corporation as a whole. Also, the higher levels in the hierarchy have broader scope and are more difficult to achieve.

In terms of regional competitiveness, Porter [5, 6] pointed that the enduring competitive advantages in the global economy lie increasingly in local things, which distant rivals cannot match, including knowledge, relationships and motivation. The modern economic map of the world is considered to be dominated by clusters. A cluster is defined as a geographic concentration of interconnected companies and institutions that achieve unusual competitive success in a particular field. Storper [7] pointed out that with the growth of world trade, export specialization based on specific products becomes increasingly important. Export specialization is largely due to product-based “absolute” technological advantages, which are renewed through learning in a variety of dynamic economies. Such export-oriented absolute advantage industries tend to be organized into production and distribution networks combining the advantages of specialization and flexibility, called “technology districts”. The features of such technology districts are: (1) trade specialization is achieved by obtaining absolute technological scarcity of the products; (2) the technological scarcity is gained through technological dynamism in the product through continuous learning; (3) production networks are organized on the basis of an elaborated shift in the division of

labor between firms or between units of a single firm, for achieving technological dynamic flexibility; (4) key collections of physical, capital, labor, and information resources for the production network are highly geographically concentrated in one or a few sub-national regions of the host countries; (5) the technological learning rests on the conventions of the regional production system, which guide the mobilization and maintenance of resources in mutual engagement between firms. The conventions are rooted in local political, cultural and other non-economic forces, which determine the quality of the technology districts.

The theory of core competence focuses on the competitiveness of individual enterprises, while the theory on competitiveness of a nation or region highlights the effects of integration and dynamic interaction across the industry, relevant industries and environment (called clusters). Both theories are equally important for developing an intellectual understanding of the competitiveness and sustainable developments in specific areas of a nation or region. Sustainable competitiveness of an industry in a nation or/region shall be determined by the levels of competencies in individual enterprises and the collective national/regional learning, involvement and commitment to cross industry integration of their competencies. On the basis of these theories, we developed a model to describe how a hierarchy of six factors (dimensions) determines the sustainable competitiveness of the Textile and Clothing industry in a nation or region [16].

As shown in Figure 1. Resources, internal business environment and external business environments are at the bottom level of the hierarchy. Resources are the inputs into the industry supply chain, including physical resources such as materials, plant and equipment, human resources such as manpower and knowledge and technology, financial resources such as capital and social

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resources such as culture and reputation. The internal business environment is a variable representing the impact of the conventions rooted in local economical, political, cultural and other non-economic forces on the competitiveness of the industry. This variable includes factors such as the political environment, domestic economy, market opportunities, taxation, policies for private enterprises, foreign investment and foreign currency, capital market, labor market and physical infrastructure. The external business environment is a variable indicating the influence of the external (international) trading environment on the industry, including factors such as tariff, quotas and non-tariff barriers to Textile and Clothing products.

Capabilities, at the second level of the hierarchy, are the abilities of an industry to exploit its resources. Capability is functionally based and consists of a series of business processes and routines to transform inputs to outputs including marketing capabilities, production and machinery capabilities, number of establishments of

companies and human resource management capabilities.

Competencies, at the third level of the hierarchy, are the cross-functional integration and co-operation of capabilities such as a set of skills and know-how resulting from interfaces and integration of functional capabilities in the industry. This variable includes factors such as international trade and export capacities, R&D and new product development abilities, as well as marketing and management abilities. The competencies of an industry may consist of the core competencies in individual enterprises. Core competencies of an industry, at the highest level of the hierarchy, are skills, abilities and areas of knowledge that are shared across the industry as collections of competencies. Core competencies require collective industrial/ regional learning, involvement and commitment to cross enterprise integration, including factors such as design culture, creativity and networking, a flexible production network, trading and merchandising clusters, a technology and product innovation learning network, original branding and an international marketing culture and capability.

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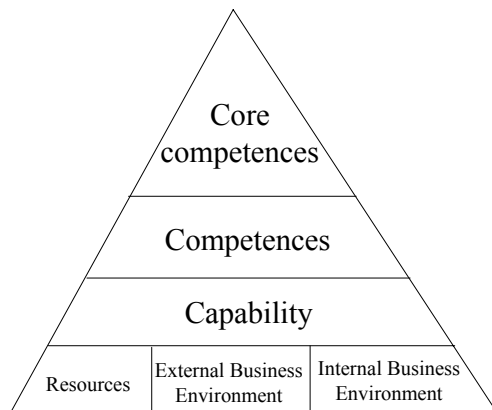


Figure 1 Hierarchy of the sustainable competitiveness of an industry in a nation/region

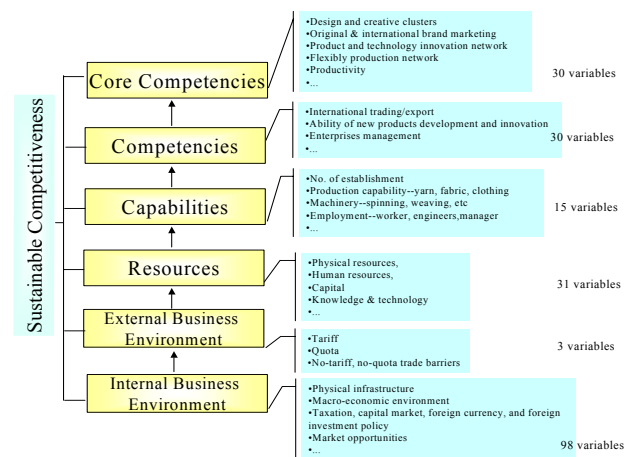


Figure 2 Roots of competitiveness

A mathematical description of this model has been developed by Li and Yao [16]. Figure 2 shows the structure and specifications of the model and the number of sub-variables in each of the dimensions, in which a total of 207 variables are included in the model. According to this model, extensive research has been carried to obtain relevant quantitative data and qualitative information. Majority of the data are obtained from the *world competitiveness yearbook* [8], *Asia Pacific Market Handbook* [9], *Consumer Asia 1999* [10], *Consumer Europe* [11]etc. for the dimensions of internal business environment and resources. For the dimensions of capabilities, competencies and core competencies, the data are obtained or estimated also from *The World Competitiveness Yearbook* [8], *Almanac of China's textile industry* [12], and some professional institute reports [1, 2, 13,14]. The data for individual variables are standardized. Ratings on the six dimensions, including internal business environment, external business environment, resources, capability, competencies and core competencies, are calculated according to the model. The values of these six dimensions are further standardized for the calculation of the overall sustainable competitiveness with specification of weights according to the levels of individual variables in the competence hierarchy. The overall ratings of sustainable competitiveness of clothing industry are generated for fifteen countries (regions) that are the major players in the global textile and clothing markets.

SIMULATION RESULTS AND DISCUSSIONS

Figure 3 shows the positions of the overall sustainable competitiveness of the Textile and Clothing industry in 15 nations / regions. The USA Textile and Clothing industry has the highest sustainable

competitiveness, followed by Germany, France, Japan, the UK, Hong Kong, Italy and China. Indonesia and Thailand are at the low end of the list. The reasons of the ranking can be illustrated by analyzing the strength and weakness of individual countries/regions along the six major dimensions.

Figure 4 shows the position of individual countries in the dimensions of internal and external business environments. USA has the best position in internal business environment. UK, Germany and France have the good positions in the upper corner of the figure, showing good internal and external business environments. Hong Kong has a very good internal business environment but relatively less favorable external business environment. Japan has a very good external business environment and good internal business environment as well. Italy, Korea, Poland, Turkey and Mexico are positioned in the left upper corner of the figure with very good external business environments but less favorable internal business environments. Thailand, Indonesia, Korea and China are positioned at the left lower corner of the figure, showing less favorable external and internal business environments.

In Figure 5, positions in the dimensions of capability and resources are shown for the Textile and Clothing industry of individual countries. China has extraordinary capability but relatively low resources. India has a similar position with relatively high capability but low resources. The USA, Germany, Hong Kong, France and UK are positioned in the right lower corner of the figure, showing very good resources but less strong in capability. Japan, Italy, Turkey, Korea, Mexico, Poland, Thailand and Indonesia are positioned at the left lower corner of the figure with weaker resources and lower capability.

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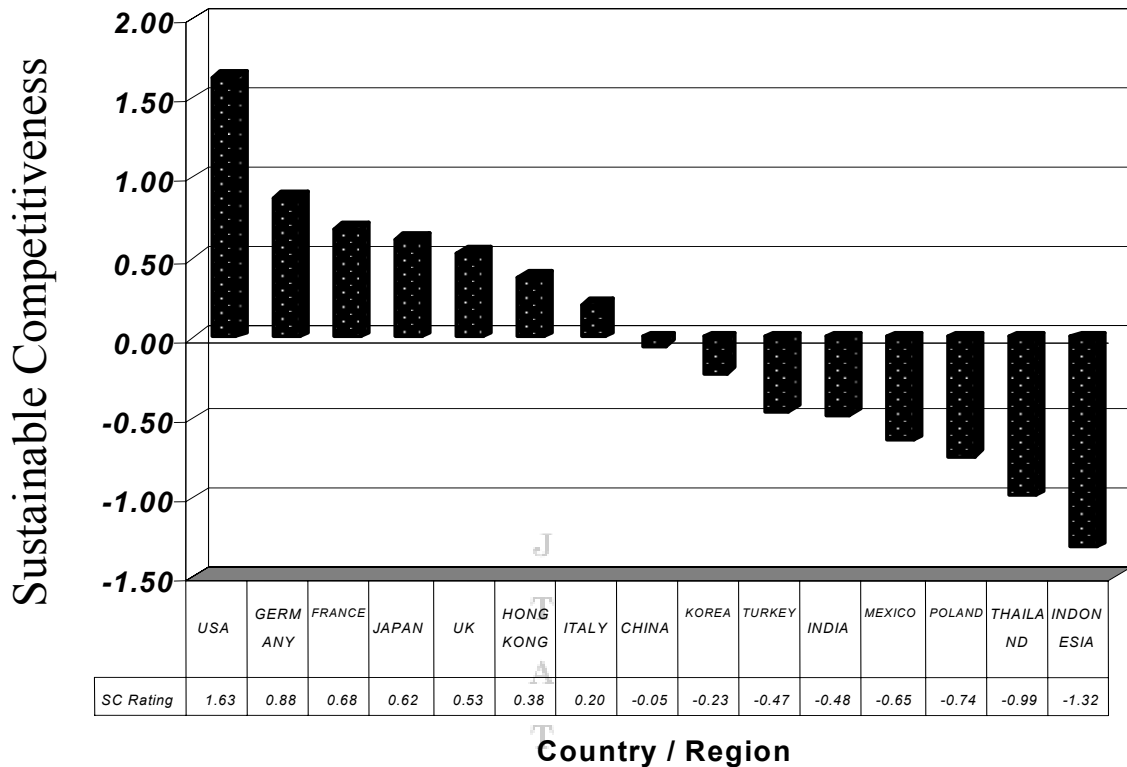


Figure 3 Sustainable competitiveness of clothing industry in the fifteen countries/regions

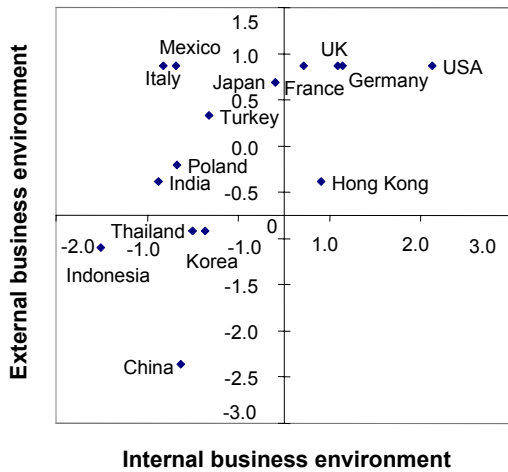


Figure 4 Internal and external business environment

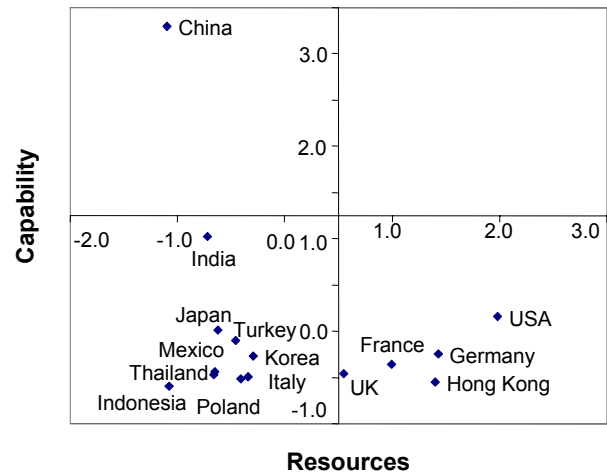


Figure 5 Capability and resources

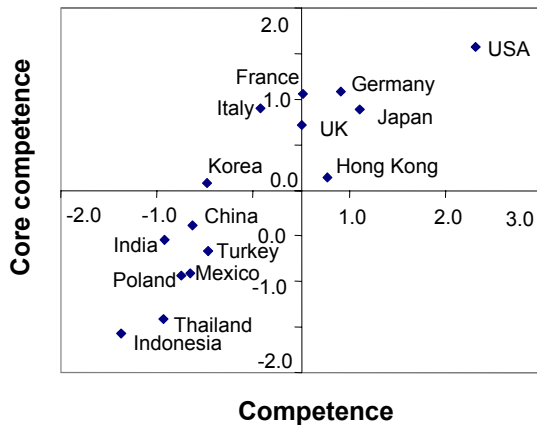


Figure 6 Competence and core competence

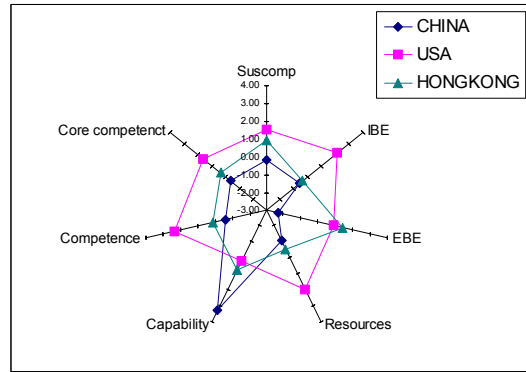


Figure 7 Comparison between USA and China textile-clothing industry

Figure 6 shows that the positions of individual countries in the dimensions of core competence and competence. The USA has a superior position in the dimensions of competence and core competence. Germany, France, Japan, the UK and Hong Kong are positioned at the upper right corner with very good competence and core competencies. Italy and Korea are positioned at the left upper corner with very good core competencies (especially Italy) but weaker competencies. China, India, Turkey, Mexico, Poland, Thailand and Indonesia are positioned in the left lower corner, showing weakness in both competencies and core competencies.

In Figure 7, the Hong Kong fashion industry is compared with the USA and China in the six dimensions and overall sustainable competitiveness. The US textile and clothing industry has excellent strength in the six dimensions of internal and external business environments, resources, capability, competence and core competence, as well as overall sustainable competitiveness. The Chinese fashion industry is weak in the dimensions of business environment, resources, competence and core competence, but has much higher capability, though its overall sustainable competitiveness is significantly lower. The Hong Kong fashion

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industry is similar but weaker in comparison with the US in the six dimensions, except slightly stronger in capability.

HONG KONG FASHION INDUSTRY IN NEW ECONOMY

M In order to investigate the impact of WTO and investment in R&D, Design and management on the sustainable competitiveness of the Hong Kong fashion industry, we carried out a systematic study of the scenarios of WTO conditions on quota, tariff and non-tariff barriers [li]. Also, we did a survey of government and industry investment in R&D, design and marketing/management in the fashion industry in various countries/regions and studied the impact of these investments on various core competencies by using the model.

Figure 8 shows the comparison of core competencies across the 15 countries/regions in the near future on the basis of the current status and investments in the relevant areas. The model predicts that the USA shall have the highest core competency (Ccomp), followed by Italy, France, Japan, UK, Germany, Hong Kong, China and India. The reason for this ranking is that the US shall have the strongest

competency in product and technology innovation (PID), together with excellent strengths in design and original brand marketing (OIBM). Italy and France shall still maintain the highest rankings in design and original marketing, but relevantly low competency in material and technology innovation. Japan shall maintain excellent

core competency in product innovation and strong competency in design and original brand marketing, particularly in Asia. Hong Kong is expected to be ranked at the 7th place in the world and the 2nd place in Asia in core competency, falling behind USA, Italy, France, Japan, UK, and Germany.

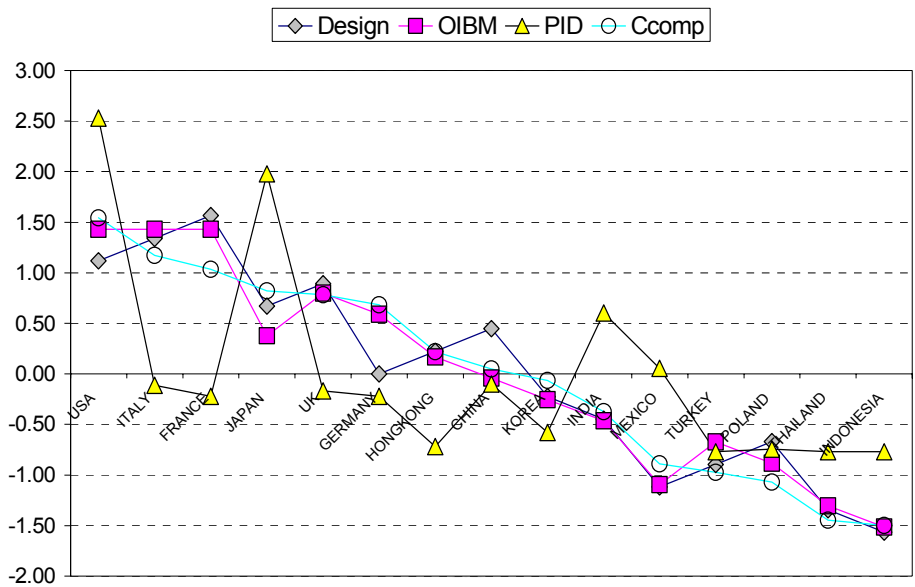


Figure 8 Change in core competency and competencies in design, original brand marketing, and product innovation

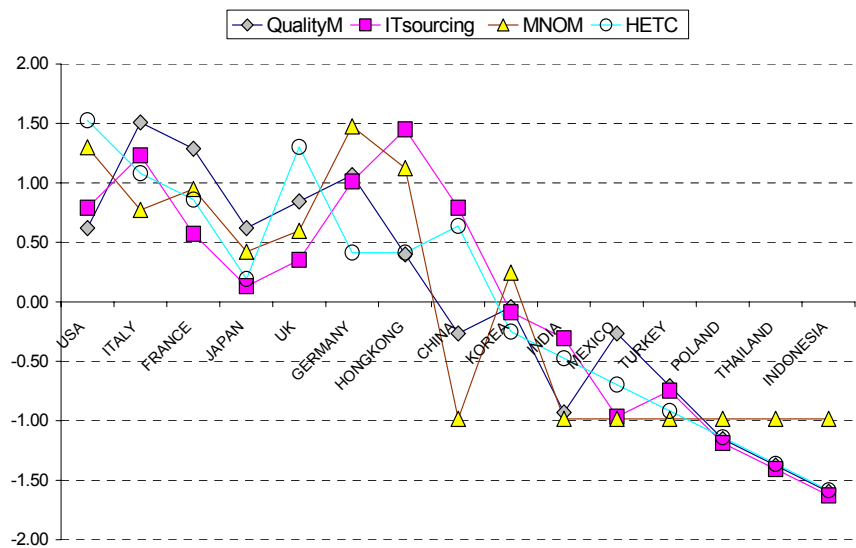


Figure 9 Change in competencies in quality management, IT-sourcing, multi-national operation, high education for TC industry

In the areas of design and original brand marketing, Hong Kong shall be ranked at the 7th position, but be very weak in product and technology innovation. On the basis of low investment from both government and industry, Hong Kong will fall behind China, South Korea and India in product and technology innovation.

As shown in Figure 9, Hong Kong is expected to maintain its strengths in quality management (QualityM), International sourcing (ITsourcing), multi-national operations (MNOM) and high education for the Textile and Clothing industry (HETC). Comparing with the developed countries such as the US, Japan and Italy, Hong Kong shall have similar level of strengths in these areas, and be even stronger than the major competitors in international sourcing and multi-national operations.

However, Hong Kong's strength as a sourcing and trading center has been challenged by neighboring developing countries such as Mainland China. In fact, China and Germany have replaced Hong Kong as the world leader in textile and clothing trade, respectively 1998. With the development and widespread use of the Internet e-commerce infrastructure, the supply chain has been shortened, buyers and suppliers are able to easily access the latest information and communicate with each other directly. The role of geographic sourcing centers may be replaced by virtual sourcing centers. With China's entry to the WTO, Chinese enterprises can be expected to increase direct trading activities with overseas buyers. Meanwhile, companies in the Hong Kong Textile and Clothing industry have widely experienced competitive threats from neighboring countries and the increase of bargaining power from buyers.

The Textile and Clothing industries in the US, Japan and Western Europe have fully realized the challenges of the new economy and very much focused on developing sustainable competitiveness for the future in three major areas: production innovation,

design and branding. The manufacturers in these countries have developed strong in-house R&D capabilities and are also extensively invested in and collaborate with external research and academic institutions. Many of them have restructured operations with less fixed assets but use knowledge based skills to develop and market their goods. Western European countries such as Italy, France and Germany maintain a leading position in fashion design and original brand marketing. Many domestic manufacturers in these countries create high value-added products by leveraging their design capabilities and creating/acquiring brands, and establishing control over distribution channels to develop competitive advantages in both domestic and international markets.

The investments and participation of the Hong Kong government and industry on product innovation are extremely low, particularly relative to its role in world textile and clothing trade and the important contribution (42%) of the Textile and Clothing industry in domestic exports. If such a situation continues, the competitiveness of the Hong Kong Textile and Clothing industry will be significantly affected in the new economy.

CONCLUSION

Through a comparative study and simulation model, we find that the sustainable competitiveness of the Hong Kong Textile and Clothing industry will decrease without intensive investment to develop the key knowledge-based core competencies. Hong Kong has excellent competitive positions in the external business environment, internal business environment, resources, competencies and core competencies, as an international sourcing and trading center, and multi-national operations. However, the Hong Kong Textile and Clothing industry is facing intensive competition from (1) domestic manufacturers within the US, Western Europe and Japan, (2) manufacturers in extended regional trade

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blocs; (3) manufacturers in developed Asia Pacific countries, such as China and South Korea; and (4) manufacturers from developing economies, such as India. Hong Kong has lost its competitiveness against developing countries in land, operating and labor costs, government support and pricing. Hong Kong does not have the advantages of countries in the extended regional trade blocs in terms of geographic location, cultural proximity, tariff and quota concession, as well as operating costs. Increasingly, Hong Kong Textile and Clothing industry is facing the threats of increased bargaining power of overseas buyers. There are excellent opportunities for the Hong Kong Textile and Clothing industry in the neighboring countries, where there are the world's largest growing markets, in which Hong Kong has geographic and cultural proximity. To capture the business opportunities and develop sustainable competitiveness in the new economy, it is essential for the Hong Kong Textile and Clothing industry to invest and develop knowledge-based core competencies in the areas of product innovation, design and original brand marketing, which can be largely enhanced by the advancement of an Internet e-business infrastructure.

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