Chapter 8

The Impact of Social, Economic Variables and Logistics Performance on Asian Apparel Exporting Countries

K. F. Au  
The Hong Kong Polytechnic University, Hong Kong

Chan M.H. Eve  
The Hong Kong Polytechnic University, Hong Kong

ABSTRACT

Endowed with abundant supply of raw materials and low labor cost Asian countries have become the world’s largest exporters of apparel products for the past few decades. In 2007, the value of Asian suppliers’ total apparel exports to the world amounted to US$ 165 billion which represented 52% of the world’s total apparel exports. The gravity trade model is utilized with an exploration at the aggregate level. Analyzing the data for fourteen exporting countries and their sixteen importing partners from 2000 to 2007, the country-specific, economic, social factors, in additional to logistics performance are analyzed statistically to identify the major determinants that have influenced the apparel trading of Asian countries to the EU-15, and American markets. Taking the robustness advantage of the gravity model, the analytical results indicate strong support for the model with parameters including GDP, per capita GDP, population size, female employment, value added factors and logistics performance. All these show statistically significance and positive effects. In contrast, distance, real exchange rates and wages have negative impacts on apparel trading. An important finding is that new variables, namely exporting countries’ logistics performance can derive competitive advantage, otherwise, it erects a trade barrier in its own right in apparel exports.

INTRODUCTION

Apparel industry is central to the global economy and has played an especially important role in the export-oriented development of Asia; initially in Hong Kong, South Korea and Taiwan, and more recently, China. Today, this sector still constitutes a substantial source of income and employment for many Asian nations. There is cross-national statisti-
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cal evidence that average incomes in a country are higher when this sector is healthy (Diao and Somwaru, 2001). Global apparel exports amounted to US$309 billion in 2007. Approximately 130 countries produce apparel for export; many are highly dependent on this merchandise export for employment and foreign exchange. Although some 30 nations are significant importers of apparel in reality, apparel suppliers are dependent on two principal import markets; the EU and USA. The EU is the world’s largest apparel importer. With its enlargement of member countries to 27, EU accounted for about 48% of world apparel imports, surpassing the USA’s share by 17% in 2007. Still, it is important to note that a substantial amount of apparel trade in the world today remains within the industrial core.

Controlling the strongest purchasing power, the EU and USA lead buyers have shaped the geography of global apparel supply significantly over the past few decades. The number of leading global apparel exporting countries has increased sharply between 1980 and 2000. Countries whose apparel exports exceeded US$1 billion in 1980 included only the East Asian NIEs, namely Hong Kong, Taiwan and Korea, along with China and USA. A decade later, the list also included Indonesia, Thailand and Malaysia, India and Pakistan. By 2000, the Philippines, Vietnam, Bangladesh, Sri Lanka and Cambodia joined the rag trade as late comers. Yet there remains a substantial variation in the degree to which apparel is principal export items among the world’s 25 largest exporters. As Gereffi and Memedovic (2003) noted: “In Northeast and Southeast Asia, apparel has declined in importance, except in China where it remains the top export items, and in Indonesia and Vietnam where apparel has climbed to third place.” (p.22) Asian nations are mostly dependent on apparel exports, which often accounts for a significant share of their total industrial goods’ exports and hence, export earnings have created a relatively high degree of dependency on this sector.

If one looks at the changing regional patterns for American apparel imports during the last several decades, it is clear that the Northeast Asian countries including Taiwan and South Korea are declining in their importance, South and Southeast Asia, namely India, Pakistan, Bangladesh and Sri Lanka have stabilized, and China has climbed to the first rank. The countries that have been most successful in exporting to USA are those that have developed, or are developing their full-package production capabilities, such as Hong Kong, South Korea and Taiwan in the first instance and China in the latter. On the other side of the globe, EU’s apparel imports show a similar pattern, with China and Hong Kong playing the leading role among the East exporters which are capable of providing full-package manufacture.

By virtue of strong demands and high purchasing powers for fashion products at a reasonable price, the EU-27 and USA are the top two dominant apparel importers in the world. In 2007, the value of the world’s apparel exports to the EU-27 and USA amounted to US$ 135 billion and US$ 83 billion respectively, which together represented 78 percent of the world’s total apparel exports. Specifically, the apparel imports of the EU-15 amounted to US$ 128 billion, accounting for 95 percent of the region’s total apparel imports (see Figure 1). In this case, the value of Asian apparel exports to the EU-15 and USA amounted to US$55 billion and US$54 billion respectively, which represented 43 percent and 65 percent of the region in question accordingly (see Figure 2).

The pattern of Asia’s apparel exports has shown the trajectory of successful growth and become the world’s largest exporting region for past decades not only because of their abundant supply of raw materials, technological capability and low production costs but also through adopting the full-package supply model. In 2007, the value of Asian suppliers’ total apparel exports to the world amounted to US$ 165 billion which represented 52% of the world’s total apparel exports. This vicious circumstance is motivating the
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