Japanese Market Information on Specified Products

# Apparel

## 1. The Japanese Market

Falling steadily since the stock and real estate crash, Japan's apparel consumption began to show signs of recovery around 1996. The consumption tax was hiked up in April 1997, however, and apparel consumption has returned to year-on-year declines.

According to the "Family Income and Expenditure Survey" compiled by the Statistics Bureau of the Management and Coordination Agency, average household expenditure on clothes and footwear has declined continuously in nominal terms since 1992. In 1997, average household expenditures on clothes and footwear fell 0.3% in nominal terms and 2.5% in real terms. The decline in consumption has occurred in all categories, but the decline has been particularly marked in men's wear and children's wear.

After the stock and real estate market crash, the Japanese apparel market has seen lower prices. The shift in production to China and other Asian countries has added momentum to this trend. Changes in the distribution setup, including the rise in discount men's wear stores, have also contributed to lower prices.

The domestic apparel industry is working to respond to changing consumer needs and shortened fashion product cycles through the implementation of quick-response systems. SPA (specialty retailer of private-label apparel) brands, which combine production and sales, are seeing growth. Originally introduced in Japan by foreign firms, SPA brands have now been brought out by domestic manufacturers who have begun establishing their own network of stores.

Japan's apparel market is already well developed, and simply offering lower prices does not guarantee success. Manufacturers must establish a unique brand identity to succeed. Products that offer materials, technical expertise, and styling that the Japanese consumers are looking for will be accepted and will fare well in competition with other imports.

Prospective importers must bear the following points in mind:

(1) Delivery Schedules

Imports of seasonal and fashion merchandise must be monitored carefully particularly when they are produced in areas without distinct seasonal changes. There have been cases where merchandise is delivered to Japan after their sales seasons because of time taken to assemble raw materials, acquire accessory items, and ship the finished merchandise.

(2) Production Lots

Because apparel has been exported to Europe and the United States historically, production lots have always been large. This practice does not match up with Japanese market preferences for small orders, multiple product types, and short production cycles.

(3) Quality Control

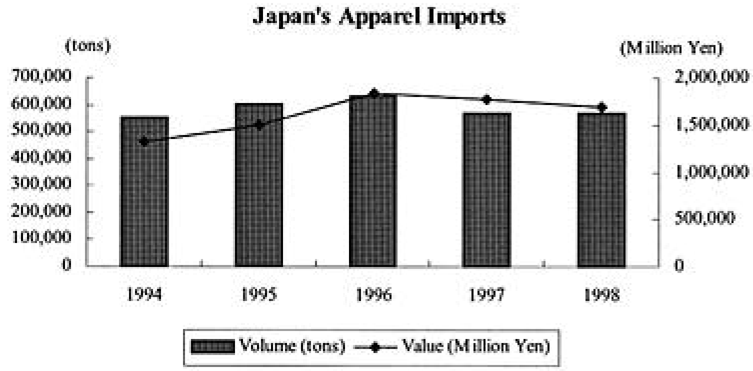
Whereas European and American quality standards emphasize external appearance, Japanese standards also examine minute details of workmanship. Japanese consumers tend to demand perfection in the products they buy, and they judge products harshly for any flaws even if these flaws in no way take away from product utility. Japanese consumers are very finicky about flaws in the fabric and about stitching seam workmanship.

## 2. Imports

(1) Recent Developments

Total apparel imports in 1998 were up 0.2% in volume from the previous year to 569,120 tons and down 4.7% in value to \1,683 billion.

Apparel imports soared in the late 1980s and continued to grow even after 1990. In 1997, however, with the sharp decline in the value of the yen and the plunge in personal consumption, imports declined for the first time since the fall 1985 Plaza Accord. In the domestic market, garment supply far exceeds demand. Imports continued their decline into 1998.




| | 1994 | | 1995 | | 1996 | | 1997 | | 1998 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Volume | Value | Volume | Value | Volume | Value | Volume | Value | Volume | Value |
| Knit Wear | 268,471 | 589,270 | 297,804 | 666,997 | 299,321 | 782,111 | 275,128 | 770,196 | 296,953 | 783,123 |
| Woven Wear | 282,277 | 723,077 | 306,006 | 832,666 | 334,777 | 1,063,089 | 293,024 | 995,389 | 272,168 | 900,343 |
| Total | 550,748 | 1,312,347 | 603,810 | 1,499,664 | 634,098 | 1,845,200 | 568,153 | 1,765,585 | 569,120 | 1,683,466 |

Unit: tons, Million Yen

Source: Japan Exports and Imports

(2) Countries of Origin

By value, the leading apparel exporter to Japan is China, which provides about 60-70% of Japanese apparel imports. In recent years, imports from the Republic of Korea, Taiwan, and Hong Kong have fallen while those from Vietnam, Thailand, and other ASEAN countries have risen.

Imports from Italy and the United States have risen sharply, causing an oversupply of products from these countries in recent years.

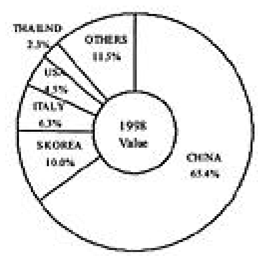
**Principal Exporters of Apparel to Japan**

<Knit Wear>

| COUNTRY | 1994 | 1995 | 1996 | 1997 | 1998 | |
|---|---|---|---|---|---|---|
| | Value | Value | Value | Value | Value | Volume |
| CHINA | 295,093 | 352,178 | 441,545 | 472,843 | 511,842 | 227,063 |
| S KOREA | 103,125 | 94,952 | 85,211 | 65,500 | 78,626 | 31,600 |
| ITALY | 47,188 | 55,623 | 64,422 | 52,658 | 49,132 | 2,283 |
| USA | 51,642 | 59,083 | 62,582 | 52,541 | 35,099 | 7,478 |
| THAILND | 14,759 | 16,624 | 20,276 | 19,656 | 18,207 | 6,187 |
| OTHERS | 77,628 | 88,636 | 108,265 | 107,219 | 90,217 | 22,342 |
| TOTAL | 589,436 | 667,095 | 782,301 | 770,416 | 783,123 | 296,953 |

Unit: Million Yen, tons

Source: Japan Exports and Imports

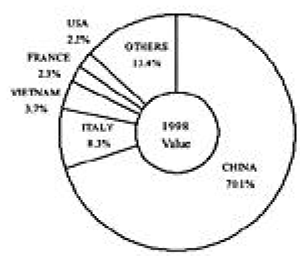



<Woven Wear>

| COUNTRY | 1994 | 1995 | 1996 | 1997 | 1998 | |
|---|---|---|---|---|---|---|
| | Value | Value | Value | Value | Value | Volume |
| CHINA | 470,942 | 554,467 | 717,686 | 690,895 | 631,108 | 229,080 |
| ITALY | 49,275 | 64,064 | 93,737 | 81,507 | 74,768 | 2,926 |
| VIETNAM | 14,647 | 18,372 | 30,717 | 36,120 | 33,517 | 9,518 |
| FRANCE | 11,943 | 16,826 | 21,164 | 21,086 | 20,522 | 760 |
| USA | 27,109 | 27,960 | 33,132 | 23,855 | 20,045 | 2,620 |
| OTHERS | 158,465 | 162,562 | 179,775 | 141,837 | 120,384 | 27,263 |
| TOTAL | 732,381 | 844,251 | 1,076,212 | 995,301 | 900,343 | 272,168 |

Unit: Million Yen, tons

Source: Japan Exports and Imports




(3) Share Accounted for by Imports

The stronger yen has led to sharp increases in apparel imports from 1987 on. Imports accounted for about 60% of the market on a value basis in recent years and over 60% on a volume basis.

The strong showing of imports is based on (1) progress in the shift by the garment manufacturers of their production bases from Japan to overseas, particularly China and Vietnam, and (2) growing acceptance of low-priced products imported from China, the Republic of Korea, and ASEAN countries because of their higher levels of quality. Imports of high-quality products from Italy and other developed nations have also increased, reflecting strong consumer demand for fashion products.

**Imports' Share in the Japanese Market**

| | 1993 | 1994 | 1995 | 1996 | 1997 |
|---|---|---|---|---|---|
| Products | 1,279,870 | 1,271,458 | 1,235,611 | 1,142,402 | 1,075,466 |
| Knit wear | 534,318 | 505,130 | 484,977 | 446,130 | 415,062 |
| Woven wear | 745,552 | 766,328 | 750,634 | 696,272 | 660,404 |
| Exports | 36,177 | 28,958 | 23,396 | 25,205 | 26,351 |
| Knit wear | 8,377 | 6,514 | 5,904 | 7,147 | 8,595 |
| Woven wear | 27,800 | 22,444 | 17,492 | 18,058 | 17,756 |
| Imports | 1,169,022 | 1,321,817 | 1,511,346 | 1,858,513 | 1,765,717 |
| Knit wear | 498,655 | 589,436 | 667,095 | 782,301 | 770,416 |
| Woven wear | 670,367 | 732,381 | 844,251 | 1,076,212 | 995,301 |
| Share of Imports | 48.5% | 51.5% | 55.5% | 62.5% | 62.7% |
| Knit wear | 48.7% | 54.2% | 58.2% | 64.1% | 65.5% |

## 3. Laws and Regulations

There is no setup in place that restricts apparel imports. Apparel that uses special fur or leather may be subject to the restrictions of the Convention on International Trade in Endangered Species of Wild Fauna and Flora. For more information, contact the Endangered Species of Wild Fauna and Flora Administration Section, Import Division, International Trade Administration Bureau, Ministry of International Trade and Industry.

## 4. Taxes

(1) Customs Duties

| HS No. | Description | Rate of Duty (%) | | | |
|---|---|---|---|---|---|
| | | General | WTO | Preferential | Temporary |
| 6101~6114 | Articles of apparel and clothing accessories, Knitted or crocheted | | | | |
| | 1. Containing embroidery or lace, of figured | 16.8% | 13.9% | 6.95% *Free | |
| | (1) Of wool or fine animal hair<br>(2) Of cotton<br>(3) Of man-made fibres | | | | |
| | (4) Of other textile materials | 16.8% | 12.6% | 6.3% *Free | |
| | 2. Other | 14% | 12.5% | 6.25% *Free | |
| | (1) Of wool or fine animal hair<br>(2) Of cotton<br>(3) Of man-made fibres | | | | |
| | (4) Of other textile materials | 14% | 11.2% | 5.6% *Free | |
| | 3. Some of shirts | 11.2% | 9.3% | 4.65% *Free | |
| | 4. Some of blouses, sweat shirts | 14% | 11.6% | 5.8% *Free | |
| | 5. Other | 6.4%~16.8% | (6.7%)~13.9% | 3.2~6.95% *Free | |
| 6201~6211 | Articles of apparel and clothing accessories, not knitted or crocheted | | | | |
| | 1. Containing furskin | 16% | (15~16.4%) | 7.5% *Free | |
| | 2. Some of shirts | 9% | (9.3~10.1%) | 4.5% *Free | |
| | 3. Other | 7.8~16% | (8.2~16.4%) | Free~8% *Free | |

*Note: Refer "Customs Tariff Schedules of Japan" (published by Japan Tariff Association) etc.*
*"*Free" in Preferential applicable only for developing country.*

(2) Generalized System of Preferences (GSP)

Preferential tariff rates on apparel products are administered as described below.

Knit Outerwear Prior Allotment
Knit Underwear Prior Allotment
Men's (Woven) Outerwear Daily Control
Women's (Woven) Outerwear Daily Control
Men's (Woven) Underwear Prior Allotment
Women's (Woven) Underwear Daily Control

Preferential ceilings are set for each fiscal year and preferential tariffs are pre-allotted through application. The importer obtains a "Preferential Ceiling Allotment" by submitting an application to the Tariff Division, International Economic Affairs Dept., Ministry of International Trade and Industry or the Regional Bureau of International Trade and Industry. The importer submits an "Allotment Certificate" along with a "Certificate of Preferential Origin" issued by a relevant agency of the country of origin to customs at the port of entry. (Contact the Regional Bureau of International Trade and Industry or the Japan Textiles Importers' Association for more information.)

Some categories of apparel have preferential tariff ceilings and maximum country amounts set at the beginning of each fiscal year and are subject to daily control. Imports are computed daily and a MEN rate is applied two days after the ceiling or maximum country amount has been exceeded.

(3) Special Exception Based on Tariff Temporary Measures Law

A system of reduction of tariffs for processing and re-import is applied when exporting materials and importing the final products made from these exported materials (only for 62 types of fabric apparel). The amount of reduction is the "price of exported materials multiplied by the tariff rate of the product." (Contact the Tariff Bureau, Ministry of Finance, for more information. TEL: +81-3-3581-4111)

(4) Consumption Tax

(CIF + Customs Duty) x 5%

## 5. Distribution

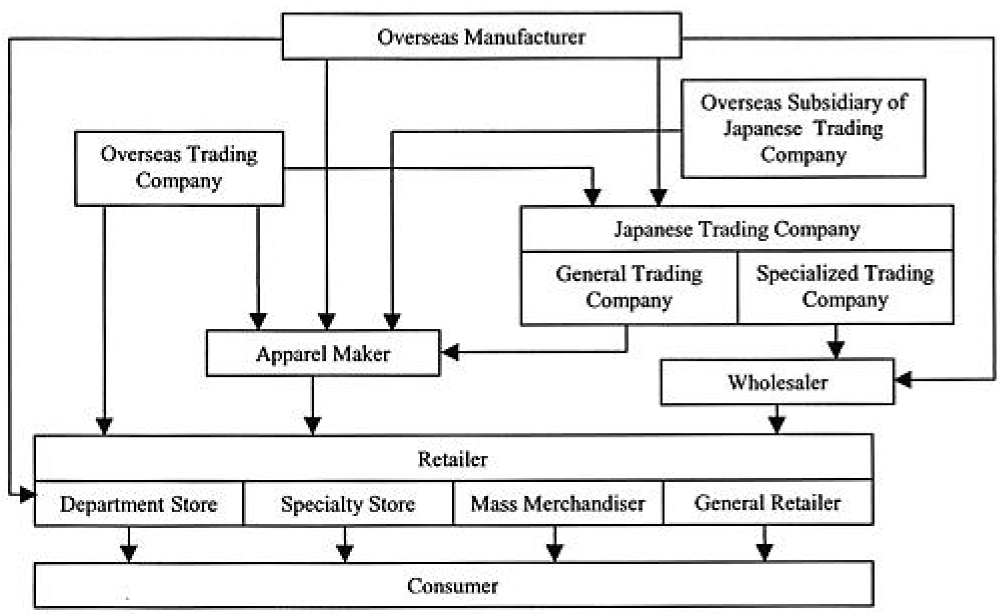
Imported apparel usually passes from a manufacturer in the home country to either a general trade house or specialized trading company, and then to a wholesaler, retailer, and finally to the consumer.

Merchandise is sometimes handled by a trading company based in the country of origin. Such merchandise is distributed through a Japanese trading house or goes directly to a Japanese apparel maker or retailer. Imports are also handled by the local subsidiaries of Japanese trading houses based in the country of origin. Such merchandise is distributed directly to a Japanese apparel maker or through the parent trading house.

Some larger wholesalers and retailers do business directly with overseas manufacturers.

About 90% of imports from China and Southeast Asia are designated as "development imports." Besides underwear, practical outerwear have begun to come under this category as well. Offshore production occurs on one hand in China and Southeast Asia where producers look to take advantage of cheap labor and on the other hand in places such as Italy, where producers hope to make use of the highly developed fashion sense and technical skills of the country's designers and workers.

**Distribution Channels for Imported Apparel**




## 6. Industry Contacts

The Japan Textiles Importers' Association
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Japan Apparel Industry Council
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