AN OVERVIEW OF CURRENT SITUATION AND COUNTERMEASURES FOR OVERSEAS INVESTMENT OF CHINESE TEXTILE AND GARMENTS ENTERPRISES

Yuting Fan, Weidong Liu

1 Institute of Geography Sciences and Natural Resources Research, CAS, Beijing 100101, China
*Corresponding author: Yuting Fan, email: fanyt.13b@igsnrr.ac.cn, C
ontact number: +86-18910549010

Abstract: With China's accession to the WTO and the demise of multi-fiber agreements (MFA), the global industrial network of textiles and garments has undergone accelerated reconstruction. In order to meet the challenges of various forms of trade friction from developed countries and other low-cost challenges from developing countries and less developed countries, overseas investment by China's textile industry has become an important strategic choice. Using statistical data, field research and expert interviews, this paper analyzes the characteristics of the overseas investment of Chinese textile and garments enterprises, analyzes the difficulties and challenges faced by the enterprises, and puts forward a guidance strategy for Chinese textile enterprises' overseas investment. In order to progress smoothly, the China's textile and garments enterprises should develop according to international business operation needs. In the "going out" process, enterprises must fully assess the risk and adopt good preventive measures, so as to optimally allocate of international and domestic resources.

Key words: predicament and challenge, overseas investment, resource optimization

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1. Introduction

In the past 30 years, China has become the home of the largest textile industry in the world. In 2015, China's textile industry produced a volume of 48.5 million tons, accounting for more than 55.43% of global fiber output. According to WTO data, China's textile exports in 2015 accounted for 42.7% of global textile exports. In recent years, the international trade environment has changed drastically, the cost of labor, land and other factors of production have been rising continuously, the mandatory standard of energy saving and environmental protection have become more stringent, and the appreciation of Chinese Yuan has caused the production and operation cost of Chinese textile and garments enterprises to increase. To achieve a certain economic strength, the textile and garments enterprises must have overseas operations "imputes" and requirements. Thus "going out" strategy is the first step for the survival and development of textile enterprises in the context of globalization. The development of economic globalization is conducive to China's textile and garments enterprises for using domestic and international markets and resources, and actively integrate with the international market and transition.

The existing literature focuses mostly on analyzing how China’s trade has evolved over the years, and how the businesses have overcome challenges and hurdles to their trade with other nations (Yang et al. 2013; Zhang, 2010; Jiang, 2009). Some studies have also looked at the risks and challenges for China’s T&G enterprises’ foreign investment, but they failed to offer useful countermeasures to overcome such risks (Qi and He, 2014; Jiang, 2007; Ye, 2007).

We have designed this study with the objective to fill this gap in the literature and to suggest measures to overcome these challenges and risks. Based on interviews, case studies and theoretical rationale, we present particular and detailed countermeasures for T&G
enterprises. Academia, policy makers – both domestic and foreign and the business community can benefit from this research whenever they want to conduct relevant research, formulate new policies or initiate a new “going out” strategy for their business. The rest of the paper is organized as follows: section 2 presents the characteristics of the Chinese textile enterprises; section 3 describes the risk faced by these enterprises when investing abroad; section 4 presents a strategy for China’s T&G foreign investment and section 5 concludes the paper.

2. Characteristics of Chinese textile enterprises overseas investment

2.1 Establishment of garments processing base in developing countries is the main direction of the transfer

In early stages, transfer of China's textile and apparel industry’s overseas production and processing bases were based on labor costs in the low-cost developing countries like Vietnam, Bangladesh, which are the main destinations of China's garments processing transfer. On the other hand, China's textile enterprises also invested in garments processing plants in Myanmar, Cambodia and other Asian developing countries and Mali, Tanzania and other African countries in export processing of low-grade clothing products. Although these developing countries have a comparative advantage in labor force, the scale of investment by Chinese enterprises is limit because of the large amount of imported raw materials such as fabrics and garments, and the limit infrastructure and the insufficiency of electricity supply.

2.2 The investment in raw material bases and the transfer of primary processing of downstream textile products show an increasing trend

In recent years, China's domestic cotton and other natural fiber supply gap has become increasingly evident, the domestic cotton prices have been higher than the international market, resulting in increasing pressure on raw material costs. Therefore, Chinese textile enterprises investment in raw material production base and raw materials acquisition channels becomes another major form of foreign investment. Upstream process of China's cotton and other industrial chain also experienced foreign transfers due to lower profits in basic processing of textiles, higher long-distance transport cost of raw material, and the need for cotton import quotas. At present, China's textile industry has established cotton acquisition channels and constructed cotton spinning enterprises in cotton-producing countries like Pakistan, India and other Asian.

2.3 Manufacturing links have transferred to developed countries along with the transfer of brand channels and other high-end links

2.3.1 Acquisition of brand marketing channels: textile industry chain moving forward to high-end products

Some of China's leading enterprises seize the opportunity of the adjustment of the world textile industry by acquiring terminal channels of a number of European brands, which laid foundation for China's textile industry value chain sales links in the global high-end market distribution. For example, on June 29, 2009, Pierre Cardin announced that its garments and apparel business in China were sold to Chinese companies, Guangzhou Jian Sheng Trading Co., Ltd. Sports brand Kappa’s enterprise control is administered in China, although with the
same trademark. The acquisition of international high-end brands is very important for brand building of China's textile and garments, and with their existing sales channels.

### 2.3.2 Make full use of local resources and industrial base, continue to develop the manufacturing sector

Some of China's dominant enterprises establish large-scale cotton mills in USA and Australia and other developed countries. Cotton comfort is irreplaceable, making it an indispensable raw material for high-end consumer goods and also reflected in market demand in developed countries. At the start of 2016, the average price of imported cotton was 15,000 yuan/ton, while the domestic price was 19,400 yuan/ton, with a difference of more than 4400 yuan per ton. The difference in 2013 was around 6,000 yuan. As the import quota is insufficient, the enterprise can only purchase domestic cotton to meet the production demand, so the production cost rises sharply (Zhang, 2013). The companies setting up factories in the United States are seeking US cotton, which has adequate supply, high quality, low cost. As long as high-end automation of cotton spinning equipment used with less use of labor, production costs for cotton yarn can be significantly reduced.

### 2.4 leading enterprises play a leading role, overseas investment and industrial upgrading simultaneously

One of the important mode of overseas investment of China's textile industry is centered on leading enterprises, where the leading enterprises support the development of industrial agglomeration. In the current process of textile industry’s overseas investment, the leading enterprises play a prominent role, in addition to entering the existing overseas industrial parks, stimulating the development of supporting industries, some enterprises also led the construction and development industrial park, thus effectively promoted the industry transfer process. The influence and leading role of the leading enterprises to promote the transfer of the textile and garments industry is not only conducive to attracting the relevant resources, speed up the transfer progress, improve the industrial facilities and to undertake the rapid formation of new agglomeration effect, but also act as starting point for the development of the real estate industry. Jiangsu Hongdou Group led the construction of the “Sihanouk Textile Industrial Park” by not only investing textile, dyeing and finishing projects, but also led the entire park management and investment.

### 3. China's textile and apparel transfer risk

China's textile enterprises lack core competencies and strategic resources, thus weakening the internal impetus of enterprises for expansion to the international market. The overall situation of China's textile enterprises are in small scale, they lack overseas investment experience and strength, the overall quality is low, financing capacity is weak, especially business philosophy is biased, and they are short of talent to develop the international market. Therefore, the textile enterprises can start with small investments in the overseas markets, if the operation is successful, additional investment could be considered. Later, they can also try large-scale cross-border M & A investment. Textile enterprises during "going out" process, mostly chose "merchandise exports" model. Due to lack of strength and experience, the textile enterprises flexibly choose a variety of "going out" model, so as to promote the successful implementation of international operations and achieve sustainable growth and development.
In recent years, the global geopolitical relations are complex, religious and ethnic conflicts are serious and the political situation is unstable. In particular, some government officials in Central Asia, South Asia and Africa are seriously corrupt, less transparent and inefficient. These factors have increased the cost and risk of investment in these areas (Zheng, 2015). Before the "going out" process, China's textile enterprises must conduct a comprehensive political risk assessment of the host country. Enterprises should pay attention to host country's policy changes and make timely adjustments to operating principles (Zhao, 2012). Before choosing a particular path for overseas investment, the textile enterprises should make full use of risk ratings and host country political risk assessment by other firms who enter similar business environment.

In order to safeguard their domestic textile industries, the developed countries frequently use of tariffs, anti-dumping duties, special safeguard measures, technical barriers to trade and other means of social responsibility barriers to restrict China Textile export (Wang, 2012). After the abolition of global textile quotas in 2005, many developing countries in order to expand textile exports, have signed bilateral textile trade preferential arrangements with the developed countries. These developing countries not only face no quota restrictions, but also enjoy preferential tariffs on textile and apparel exports to developed countries. This has led to gradual reduction in China's market share in textile products in developed countries.

In China there is not enough national macro-guidelines, textile enterprises are ill prepared, their transnational business behavior is not standardized, and their management capacity needs to be improved. There are many problems in the field of foreign investment, which are lack of deep research on the system of the host countries and lack of strategic and systematic guidance and planning. At the same time, the government departments and governments at all levels lack understanding of their respective responsibilities. Foreign aid, construction, industrial investment have poor coordination and support for enterprises for “going out”. Chinese textile enterprises in the initial stage of "going out", need both national guidance and coordinated support from all departments and levels of government.

4. Strategy for China's textile and apparel overseas transfer
4.1 Support enterprises "Group", orderly development of overseas industrial clusters

4.1.1 Give full support to the leading enterprises in the implementation of "Group" strategy

Establishing foreign economic and trade cooperation zone is an important measure by the Chinese government to encourage and support qualified enterprises to expand foreign investment. This can also guide strong textile enterprises to carry out the construction of specialized areas of cooperation outside the region. "Group" strategy can also be implemented by accelerating the development of a number of influential textile multinational and large enterprises to promote vertical and horizontal associations with small and medium enterprises. Relying on the industry in overseas markets, especially in developed countries already have the advantages of cross-border production and operation of leading enterprises, to speed up the development of a number of influential textile multinational cooperation alliance.
4.1.2 Government needs to give active support; chambers of commerce and trade associations should play the role of intermediary service

Government need to establish various service centers to provide services such as credit guarantee, export insurance, product inspection, quality control, quality certification, trademark promotion, management consultation, customer complaint handling, market information collection, market expansion and training for industrial clusters. The government should fund the establishment of various levels of vocational skills training institutions, training of the employed persons, entrepreneurs to improve the quality of employment, entrepreneurship; the establishment of industrial clusters as an important carrier of scientific and technological innovation system and technological innovation platform to support industry technological innovation of small and medium-sized enterprises in the cluster.

4.2 Formulate feasible localization management strategy, create the coordination effect between headquarters of China and overseas

Localization of business philosophy is mainly reflected in the localization of manufacturing, R & D, brand and marketing, personnel and relationship. Along with accumulating a lot of successful experiences, the enterprises also face many practical problems in the "going out" process. In terms of external environment, the enterprises need to invest a lot of resources to resolve problems like different system of countries, culture, customs and other obstacles. In developing countries, the infrastructure is backward, the legal system is not perfect, the technical skills of the workers are low and investment environment is not very satisfactory. Multinational enterprises, on basis of the host country's market demand, not only need to carry out a series of product planning research and development, promotion, price development, channel expansion and advertising promotion activities, but also need to study the society, culture and transformation of the host country. At the same time, the enterprises need to pay attention to the development of human resources in the host country and the establishment of good relations with the local government, with the aim to reduce operating costs, make products rich in local culture, find an integrating point between the corporate culture and the host culture, meet local customer needs and establish a good corporate image.

4.3 Expand the scale of trade, optimize the trade structure, and implement the strategy of "going global" to stabilize the international market share

4.3.1 Overall optimization of export structure

For different export products require a different approach to development. For a wide range of public products, production efficiency can be improved by strengthening the technological transformation, improving the management level and reduce input costs. Product reputation in the international market can be ensured by stable product quality and price. For gradually increasing the export of public products investment in R & D design, cultural and creative should be increased. After stabilizing the market share, OEM exports model should be steadily transformed into ODM exports form.
4.3.2 Make Efforts to develop a diversified market

Encourage export enterprises to implement market diversification strategy, and actively explore the potential of emerging markets such as Southeast Asia, South Asia, the Middle East, Latin America and other emerging markets and developing countries to increase the same industry and related industries in various forms of cooperation. Promote domestic market sales, cultivate new export growth poles, so as to ease the export market concentration which brings high market risk. Emerging market development provides a huge space for development "going out" strategy.

Global purchasing power is undergoing historic changes, wherein the purchasing power for clothing has grown rapidly the emerging countries, especially in Asia-Pacific region. From 2000 to 2012, the proportion of apparel imports by three major economies i.e. Europe, USA and Japan fell from 83.8% to 66.1% of global total. Whereas, the proportion of imports for all the other regions increased from 16.2% to 33.9%. The change in purchasing power governed by changes in economic power. Given that China's domestic clothing brands have hard times getting breakthrough into Europe and USA markets, China's textile and garments brand should more to the other parts of the world. At the same time, they should seek opportunities in the domestic and ASEAN emerging markets, which represent more than 1 billion middle-class people.

4.4 accelerate the acquisition of foreign brands, the implementation of "brand going out" strategy and boosting "Made in China"

Traditionally, China's products entering international competition mainly dependent on the quantity and price advantages, but this traditional advantage has started to weaken. The “cutting-edge” for a brand to become the internationally competitive should be the strength of the acquisition of foreign brands and cast away the OEM dilemma as soon as possible. Compared with other modes, Mergers and Acquisitions has the following advantages: costs are low in M & A, acquisition of an existing enterprise don’t need further research, establishment of factory site or training of staff. Through mergers and acquisitions, enterprises can be more quickly transferred to another market (Shu, 2012). Mergers and acquisitions gives better integration of management resources, especially cross-border mergers and acquisitions companies can quickly and cheaply obtain the original business reputation, products, technologies, brands, available set of equipment, original company's sales channels in the overseas market. For example: in 2009 China's garments enterprises Wei hai Shang di invested 6.3 million US dollars in the acquisition of Paris "AVERY" brand, which successfully entered the Paris women's fashion mid-range market; 2010 Ruyi Shandong acquired Japanese RENOWN famous brand "D'URBAN".

4.5 Implement space-based investment strategy, promote global investment from "point" with "face", pay attention to regional investment

According to China's needs and the actual situation in the global region, China should implement the space-differentiated investment strategy in accordance with the "open cooperation, mutual benefit and win-win" principle.
4.5.1 Focus on investing in developing countries and some regions in Asia

Textile enterprises could transfer their low-end processing to countries such as Vietnam, Bangladesh. Meanwhile the companies should improve their value chain, turn into high-end chain such as research and design, and explore local market. Chinese companies transfer large products to develop countries for giving preferential policies to some Asia countries. Such as Jiangsu HSBC invested 10.05 million US dollars in the UAE to set up a processing trade enterprises which has brought 42 million US dollars.

4.5.2 make full use of preferential trade agreements to invest in Latin America

China companies could invest in Latin America to utilize its free trade agreements and communication barriers, other advantages for its geographical location close to the USA. Textile products could be exported to USA as soon as possible.

4.5.3 Appropriate develop African countries and regions. Many African countries have no cultivation of cotton

Cotton spinning enterprises could use foreign investment in African countries, preferential policies, and cheap land leasing, low labor force to invest the cotton field.

4.5.4 pay special attention to developed countries such as Europe and the United States

Textile enterprises invest in developed countries to learn to shorten the technical and management gap with developed countries, broaden sales channels, build international brands, and enhance their ability to enter the high-end links.

5. Conclusions

China's textile and garments enterprises "going out" must be based on the "existing knowledge", rather than blind aggressiveness, and should gradually cultivate an international management team and accumulate good overseas business talent. While facing the international market practices, the enterprises should fully understand the host country investment environment and relevant laws. They should combine their own advantages and disadvantages, take appropriate countermeasures to avoid overseas financial, diplomatic, operational and policy risks. China's textile and garments enterprises desiring to invest in overseas markets should strengthen and promote vertical integration. China's textile enterprises implementing the strategy of vertical integration should make strategic choices of “dos and don’ts” and develop core industry links according to industry’s research and development, production, sales and other aspects. In a new starting point to achieve the globalization of production factors and resource restructuring, and according to the characteristics of this production process, select among "going out" form, direct green investment, cross-border mergers and acquisitions, the establishment of R&D institutions.
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