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"Chinese Outward Foreign Direct Investments in Textile and Apparel Industry"

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Firma dello studente

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To my sister,

who taught me the love,

the strength, the resistance.

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Introduction

In the last twenty years, China's Textile and Apparel Industry has experienced an increasing growth, mainly derived by the huge amounts of inward investments received from advanced countries multinationals, that targeted China by virtue of its huge population and low production costs. Endowed with its huge production capacities, during the years Chinese T&A companies started to place their products on the market, instead of only providing semi-processed commodities to Western multinationals. The exports of these products have been enormous, but still on low-value segment market. Today, Chinese T&A companies' objective is to shif from representing the "factory of the world" to have its own high-value product proposal and to compete with well-known international brands.

In this work, our aim is to analyse Chinese Textile and Apparel companies' initiatives in achieving the upgrading of the label *Made in China,* with an emphasis on their internationalization strategies, since they represent the most effective way at Chinese companies' disposal to reach this objective, as we will see in the next sections.

The work is structured as follows: in the *first chapter* we highlight the main feature of China's Textile and Apparel Industry to contextualize the environment in which Chinese T&A companies have been growing and the reasons why they are undertaking internationalization strategies, and the main features of Foreign Direct Investments as mode of entry in foreign countries by Chinese companies, according to the literature at our disposal.

In the *second chapter* we analyse the data obtained from diverse databases on Chinese Outward FDI, namely Heritage Foundation, Zephyr (Bureau van Dijk) and fDi Markets. We add to our database the data on Exports and Imports of Textile and Apparel products relative to the target investment countries, to verify if there is a correlation among Chinese investments location choices and the history of trade with the destination country in the Textile and Apparel Industry.

In the *third chapter* we deepen our knowledge on the most prominent player in Chinese Fashion Market, the conglomerate Shandong Ruyi, that undertook successful numerous overseas acquisitions in recent years, and it represents the symbol of the label Made in China going towards its upgrading. We will also see how fashion higher-value proposal could be built around technological development more than traditional manufacturing sophisticated techniques.

CHAPTER I

Chinese Textile and Apparel Industry

Textile and Apparel (T&A) Industry is a huge and profitable one, to which we will also refer in our work with the more general term Fashion Industry. According to McKinsey (2019), between 2008 and 2017, Fashion Industry returns have beaten both the S&P 500 and MSCI world indices.

Textile and Apparel Industry started to develop at the beginning of the 20-th century in Western World, when new technologies - such as sewing machines - were being diffused, the system of industrial factory was increasingly deployed and shopping centres were spreading, clothes switched from being custom-made to be mass-customized. Fashion industry first development phases were localized in North America and South-West Europe, but today it covers all the continents and it is a great symbol of globalization. Textile and Apparel Industry comprises diverse sub-sectors, according to phases of the **supply chain** and **product categories**.

1.1 Textile and Apparel Industry Global Supply Chain

Fashion Industry is, by definition, a product of its time, and such as this, it is a very dynamic system, where companies have to stay aligned to the changing trend in customers' tastes, anticipating and even influencing them, in order to adapt their offer to the market demand. Thereby, Fashion Industry supply chain is very complex and widespread. Through the years, indeed, the boundaries of the industry have been blurring with globalization and the production phase has implanted its roots worldwide. Today companies could have factories and phases of their supply chain located in two or more different countries. A typical Fashion Supply Chain includes orderly*: raw material farmers/producers, textile producers, apparel manufacturers, transporters, warehouses and retailers.* Sometimes, old/unused products of past seasons are collected by third party collectors who remanufacture or reuse the old/unused products, and this process is the so called *closed-loop supply chain* (Shen and Mikschovsky, 2017), that represents a great focus of attention nowadays when referred to the argument of sustainability in fashion.

1.2 China's role and position in the Global Fashion Supply Chain

As the effects of the globalization, with the increasing number of players in the Fashion Industry, the enhanced competitiveness and so the need to lower the final prices for consumers, combined with the reduction of international transportation costs, companies operating in the

fashion sector found it easier to outsourcing the production of basic items to China when the country opened the door to inward foreign investments by the beginning of 1980. At that time China had a huge working force, a satisfactory apparel manufacturing heritage, low production costs and a policy of low tariffs on export, that attracted more and more foreign companies. Chinese factories working on *cotton, chemical fiber textile and printing, dyeing finishing, wool textile and dyeing finishing, linen textile, silk textile finishing, knitted and woven products* (Shen and Mikschovsky, 2019) have progressively been integrated in the international supply chain of multinationals enterprises, and, in this way, China experienced a huge amount of inward foreign direct investments that triggered its economic growth, by leveraging the export rate and the absorption of foreign know-how in that sector.

The proliferation of textile companies in China has led to a fierce competition in the domestic industry, that resulted into the **specialization** of each company in certain products or abilities in order to differentiate and attract foreign clients. Obviously, the possibility of producing at lower costs has happened at the expense of quality, which was acceptable at the time China was receiving all the attention, when we attended the rise of Fast Fashion trend. Dominant Western players that rode this trend had their competitive advantage based on two main items: *process efficiency* and *cost effectiveness*. Chinese suppliers allowed them to obtain both of them.

1.3 China's T&A Industry Internationalization History and main Agreements

Textile and Apparel Industry was developed in China with the birth of Cotton Industry during World War I, when imports from Western countries were stopped and the country must produce internally the resources it needed. Japan was the main supplier of machines in China. In 1934, was established the Cotton Industry Commission, meant to improve spinning, weaving and dyeing techniques. Chinese mills were spread inland, due to the proximity to raw materials and the possibility to have more competitive costs and prices.

Japanese influence on China's Textile Industry remained until the end of the World War II with the defeat of Japan in 1945, where China took the manufacturing units and incorporated them into Chinese Textile Industries Corporation (CTIC), letting them be managed by the government. The government indeed controlled 50% of China's textile industry, but it didn't succeed in boosting its profits. When the Chinese Communist Part rose to power, many mill owners moved to Hong Kong to establish their activity in a more favourable economic context.

From 1970 until 2004, the global textiles trade was subject to the provisions of **Multi-Fibre Arrangement (MFA),** a system of quotas that regulated bilateral imports of specific types of textiles and apparel. It limited the textiles production that developing countries could export to

developed countries, in order to protect Western textile industries. The agreement preserved some production in high-wage countries and prevented any single developing country from dominating the textiles export market (McKinsey, 2019). The main beneficiaries of the MFA were Asian developing countries that could have the possibility to compete with more productive low-wage countries such as China and India (McKinsey, 2019). Benefiting from its acquired ability to export finished garments to advanced economies, China instead grew its textile industry by expanding up and down the supply chain (McKinsey, 2019).

Restrictions and quotas imposed by the MFA began to be reduced in 1995, until they have been removed in 2005. Consequently, the global textile industry started to reconfigure, with China moving to the centre of it. Indeed, some developing economies lost their production and export shares as Western suppliers, to the benefit of China that saw its apparel manufacturing industries began to bloom (McKinsey, 2019). Thereby, China started to receive huge amounts of FDI from developed economies, which were helpful to private firms that used to offer foreign investors a stake in their equities to attract them, since they were suffering the lack of funding, as State Owned Enterprises (SOEs) - that were not efficient - were privileged at their expenses. The inflows of FDI boosted China's economy, with T&A industry as the driver of it. In 1995, the United States was the global leader in T&A industry, turning out 13 percent of the world's textile output, while China produced 12 percent. By 2017, China's shared had risen to 47 percent, while the US share had declined to just 3 percent (McKinsey, 2019).

OFDI instead were prohibited by the autarkic system of China until 1978, when Deng Xiaoping launched the economic reforms now known as the "**Open-Door" Policy** (Liu, 2016). Since then, many institutional reforms initiatives were adopted, that culminated in the launch of **"Go Global"** policy in 1999, meant to prompt Chinese firms to internationalise and occupy a position amongst the world's leading MNEs (Buckley, Clegg, Voss, 2017). Establishment of the Forum on China-Africa cooperation, the "16+1" cooperation forum with Central and Eastern European Countries and the China-Caribbean Economic and Trade Cooperation Forum, are examples of China's eagerness to smoothen the way for domestic firms to enter potential host countries (Buckley, 2017).

Another date that changed the history of China's (and the World's, also) Economy was its accession to the **WTO,** that allowed it to increase its role in the global trade. 2.6 percent of consumption in the world is imported from China today, compared with only 0.8 in 2000 and China imports now account for 2.0 percent of the gross output of the rest of the world, compared with 0.4 percent in 2000 (McKinsey, 2018). Nevertheless, even if China has joined the WTO, trade barriers persist in the country, and there are a little bit increasing in recent years. Indeed, since joining the WTO, China has halved tariffs from an average of 16 percent in 2000 to 8

percent in 2008, but since then the average tariff rate has been increasing until reaching 9.6 percent in 2016, which is more than double then US and EU average (McKinsey, 2018).

To further implement China's exposure and openness towards the World, an important strategy launched by the Government has been The Belt and Road Initiative (BRI) in 2013**,** a set of partnerships and investments with foreign countries along the way of the ancient Silk Road, meant to boost China's Industry by facilitating the outflow and inflow of Foreign Direct Investments. We will deepen later in this work the relevance of this initiative in China's economy, with particular reference to its Fashion Industry. We anticipate here its importance to explain the huge waves of Chinese investments occurred until 2016, when they experienced a turnaround. In 2017, the surge of China's non-financial ODI dropped by 33.7%, due to some government restrictive measures launched between 2016 and 2017. Indeed, the fast rise in capital outflows posed a threat to the country's financial stability, after RMB's unexpected devaluation in August 2015 (Huang and Xia, 2018).

1.4 China's Textile and Apparel Industry Geographical Distribution

T&A Industry in China is physically and geographically concentrated mainly in **industrial clusters,** located in China's eastern coastal provinces. These regions are Zhejiang, Guangdong, Jiangsu, Fujian, Shandong and Hebei. Each of this cluster is specialised in a certain phase of the production process, with a rather complete chain of spinning, packaging, embossing, weaving, dyeing and finishing, stitching ready-made garments and washing nearby (EU SME Centre, 2017).

The choice of concentrating T&A industry in these clusters are linked to their industrial advantages. Among those:

- Convenient transportation: clusters are located close to highways or ports
- Market vicinity: clusters are located close to major cities, such as Hong Kong, Guangzhou and Shanghai
- Excellent information, communication and transportation infrastructure in the area (EU SME Centre, 2017).

In general, clusters configuration allows the efficient exploitation of regional resources, the realization of economies of scale, the development upstream and downstream of industry chain and the product innovation among enterprises, which, through specialization, have the perfect knowledge of their product and the ability to reconfigure it. Moreover, through industrial clusters, the government can regulate the execution sequence of national industrial plans and

direct the enterprises to realize sustainable growth more effectively (Yi-Yi LI, Lei Yao, Tong Guo, 2018). Clusters have represented a factor of international advantage through the years for China.

1.5 Chinese Textile and Apparel Multinational Enterprises

Based on its traditional textile manufacturing industry and the huge cheap labour force, Chinese enterprises have had on their side a combination of ***large scale*** and ***low costs*** that determined their strong comparative advantage as suppliers of advanced economies enterprises in the global textile industry in the last century (Yi -Yi LI et al., 2018). Through the years, some Chinese leading companies (namely, Hongdou Group Co., Ltd. In Jiangsu, Texaco, Acer Incorporated, Ruyi Group.,) have absorbed the technology and know-how of advanced economies enterprises investing in China and have combined it with local resources and labour force, building a value proposition capable of competing on the entire industry chain in the international market. Boosted also by the implementation of ***The Belt and Road Initiative,*** these strong Chinese enterprises started to conduct business all over the world. Over time they improved the capacity to control the resources of raw materials, to manage the global trade channels and the local operation capacity (Yi-Yi et al., 2018). Today these companies are huge conglomerate that are dominating Chinese market and expanding worldwide. In Global Fashion Industry this type of corporate structure is a necessary distinctive advantage to operate successfully and dominate the market, since the main international competitors (LVMH, Kering, Richemont) have demonstrated to dominate the market leveraging on diversification of portfolio, multi-brand strategy and solid financial strength, that otherwise they couldn't have had with a small-medium structure.

1.6 Current Challenges in Chinese Textile and Apparel Industry

Today, in China there are some challenges regarding the country overall Economy, that have direct consequences on T&A Industry development. Here we list the principal ones:

- **Increasing cost of raw materials, labour, energy and power** and inadequate supply of **labour** (EU SME Report, 2017), combined with the **depreciation of RMB** - that makes exports more expensive to international buyers (Shen and Mikschovsky, 2019) - are causing the weakening of international competitive advantage of Chinese prices and the shift of international buyers and investors' attention to lower cost countries in Asia (Vietnam, Indonesia, Bangladesh, Pakistan) and Eurasia (Turkey).

Since 2014, the export of Chinese textile and clothing products has dropped more than $30 billion in total value (South China Morning Post, mentioned in Brand Gaille, 2018a). China showed a tendency on exporting more textile, whose production was facilitated by more sophisticated and productive machinery, at the expense of garments which are much more labour intensive (EU SME Centre, 2017). In 2017, the export of clothing fell by 0,4%, while textile exports saw an overall growth of 4,5% (South China Morning Post, mentioned in Brand Gaille, 2018a).

- **Brand Building**. Although the manufacturing technique of Chinese textile enterprises has been improved, the clothing enterprises are still lack of design (Yi-Yi LI et al., 2018). In the global value chain, Western Fashion Industry value proposition presents features of design, brand, marketing, operation and high additional value, while Chinese Fashion Industry still stays in the link of processing, production, trade and low additional value (Yi-Yi LI et al., 2018). China doesn't possess a tradition of sophisticated craftmanship, as Italy or France did, and an education system that promotes the creative skills. Chinese textile and clothing enterprises have no brand advantage at all and no registered trademarks of their own (Yi-Yi et al., 2018).

- **Environment Issues**. Chinese textile dyeing and printing industry faces the pressure of wasting resources and excessive emission. At present, developed countries are raising discharge standard of pollutants, which directly influences foreign trade of textile and clothing industry. Indeed, textile is the industry with the third largest discharge of industrial wastewater in China (Yi-Yi LI et al., 2018). Given that, in recent 30 years, textile is one of the most important industries in China's economy, we can imagine how this phenomenon could potentially be disruptive in the country.

1.7.1 China and South East Asian Countries' integration in T&A Industry Value Chain and the *Stage of Development* Theory

In the study carried out by Yi-Yi LI in 2018, it is shown that China is losing export shares of some low–end textile and clothing products in the global trade, while its imports from ASEAN (Association of South East Asia Nations) and Southeast Asia countries is increasing significantly, which means that these countries are shifting from being only trade destination countries into being trade and investment countries. They are gradually following the same path of China, trying -as developing country- to boost their economy leveraging on Textile and Clothing Industry, which represents one of the first industries to be enforced in the early

economic development country phase. In this section we want to analyse more deeply how the industry is modulated for Asian emerging countries in their integration in a unique and solid T&A supply chain and how this integration affects their economies' level.

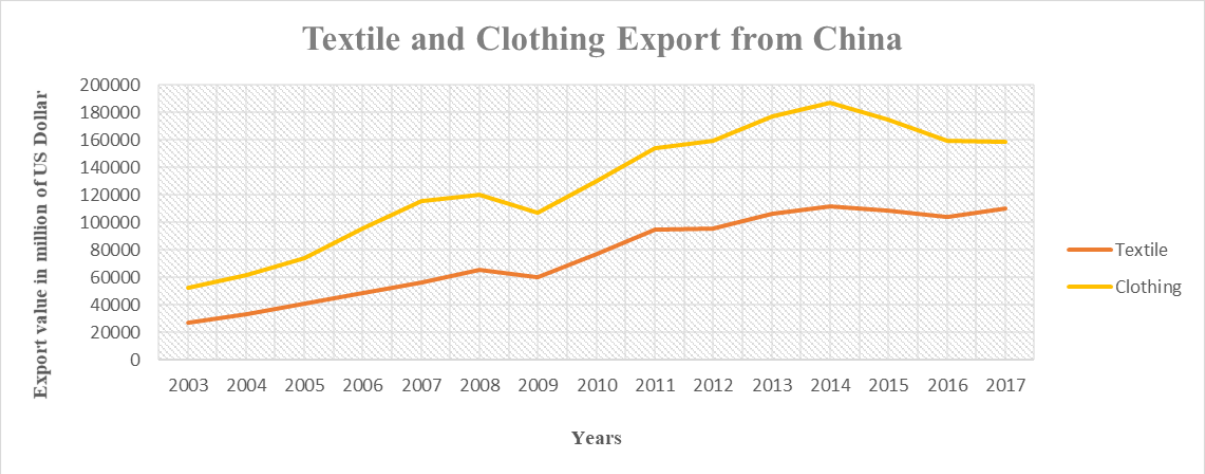
Fashion Industry is highly diversified and fragmented. It involves two main activities: ***Textile manufacturing*** and ***Apparel Manufacturing***. The first, in turn, involves the *spinning, weaving and fabric finishing processes*. The last one instead includes the *cloth cutting* and *sewing operations* (Dickerson, 1999 – mentioned in Lu Sheng, 2019). Generally, the Textile industry is considered a technology intensive industry, since it is primarily based on sophisticated machinery for production. Apparel manufacturing is to be considered a labour-intensive industrial process instead, due to its low requirement for technology and capital (Lu Sheng, 2019).
Capital and Technology endowment in a certain country determines its level of industrialization and, in Asian countries case, its position in the global fashion value chain.

In the effort to investigate this assumed correlation between a country's state of economy and the development of its fashion industry, Toyne et al. (1984) elaborate the **Stage of Development Theory**, according to which the T&A industry in a country generally goes through six development stages. Specifically, from the rudimentary stage of the economy until its decline, "textile products will gradually account for an increasing share of a country's total T&A industry output while the share of apparel products will fall" (Lu Sheng, 2019). For this reason, there could be countries capable of producing apparel, but incapable of producing textiles, because their economies have not accumulated enough capital and technology yet (Toyne et al., 1984, mentioned in Lu Sheng, 2019). The theory explains the phenomenon previously mentioned of China exporting more and more textiles through the years. Statistics also show that China has imported more raw materials and finished clothing, whereas exported more spinning machines and manufacturing equipment to less developed countries (Shen and Mikschovsky, 2017).

Following this theory, we decided to track the value of Chinese Textile and Clothing exports worldwide, extracting the data from World Trade Organization (WTO) online database and elaborating them in the two following graphics. As we can see in graphic 1.1, in our time period 2003-2017, the value of Clothing exports results always higher than Textiles, as China's economy is not advanced yet and the more-labour-intensive Clothing Industry - according to Toyne's Theory previously mentioned – is prevalent. But looking at the Graphic 1.2, we can

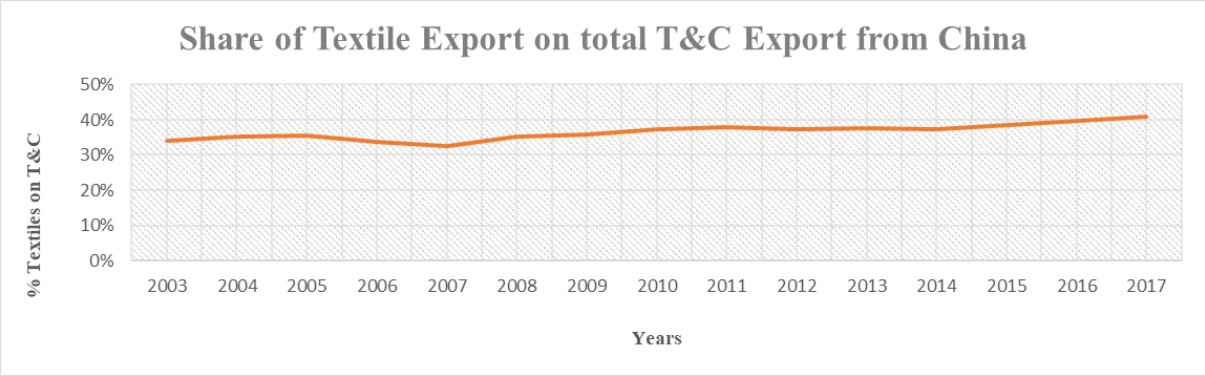
see that the share of Textile exports, calculated on the total T&C export, has showed a positive trend over time, shifting from being 34 percent in 2003 to 41% in 2017.

Graphic 1.1



Graphic elaborated by the author. Source: WTO data, retrieved from https://data.wto.org/

Graphic 1.2



Graphic elaborated by the author. Source: WTO data, retrieved from https://data.wto.org/

Toyne's Stage of Development Theory tells us that this phenomenon is the direct consequence of the industrialization process of T&A Industry in a country.

In this work we will move along the lines on this theory, hypothesizing a correlation among T&A products exports and imports and the companies' investments that have a huge impact on the entire industry in China.

1.7.2 China and South East Asian Countries' integration in T&A Industry Value Chain and the *Flying-Geese Model*

In order to effectively explain the current industrial relationship between ASEAN countries and its consequences on their economies, the **Flying-Geese Model,** developed by Kaname Akamatsu in 1930s, is very helpful, because it aims at understanding the "catching-up" process of industrialization in developing countries, after they enter in an economic relationship with

advanced countries. Akamatsu outlined four stages through which a developing country goes in its industrialization journey, applying his theory to Japan (which he named "lead goose") that had just completed a great industry development at the time Akamatsu elaborated this theory, and for this reason – in line also with the Stage of Development Theory - it would led its closest NIEs countries ("follower geese") follow the same pattern, by entering in a trade and investment relationship with them. The industrialization process starts with the *first stage* where the underdeveloped country first enters the international economy, exports primary products that are its specialties and imports finished products for consumption from advanced countries (Akamatsu, 1961, mentioned in Kojima, 2000). In the *second stage* the underdeveloped country starts to produce the previously imported goods, with domestic market as an outlet (Kojima, 2000). In the *third stage,* export production comes at a larger scale and domestic market is turned into market for domestic industrial goods. In the *fourth stage* the industry of the country is to be assimilated to that of advanced economies and it now starts a period of export rate decline, due to the international competition in mature markets on homogenized products and the increasing costs of raw materials. At this point, industry players search for underdeveloped countries to import lower costs raw materials and exploit the cheap working force by outsourcing the production capacities, so that the Flying – Geese cycle for the country we have analysed is completed and it now must be applied to the economies it enters in contact to. Furthermore, the country exports no more finished goods to advanced economies, but capital to the developing ones. In this way, the diversification of production through inter-industry cycles upgrades the structure of industries and exports (Kojima, 2000) and it is beneficial to the *regional supply chain* as a whole.

The Flying-Geese Model was outlined in 1930s, with reference to Japan and NIEs countries, but it could effectively be applied today, to explain the great economic development in China in the last 30 years and the rising South Asian and South East Asian countries to which China is entering in contact to, through trade and investment. We have seen in the past that the development of China T&A Industry and its economy has followed the industrial upgrading of Japan and South Korea that left to the country the apparel manufacturing phase, through the set-up of subsidiaries or joint ventures.

Today this shift is being replicated between China and ASEAN and South Asian countries (Lu Sheng, 2019), including Bangladesh, Cambodia, Indonesia, Thailand, Uzbekistan and Vietnam. After a period in which China acted as low production supplier of advanced economies and accumulated capital and technology, it is now willing to undertake more capital and technology

intense production industries (such as textile fiber production), leaving the more labour - intensive industries (such as apparel) to its neighbour resources rich countries.

1.7.3 Regional T&A Supply Chain

The direct consequence of the heterogeneity in the specialization of different phases of the production process between neighbour countries is their integration in a single supply chain, phenomenon that is academically recognized as **Regional T&A Supply Chain** (Lu Sheng, 2019). According to this process, the more developed economies supply the less developed countries with textile raw materials, where they are processed according to the labour – intensive sequences of apparel industry, and then exported finished apparels back to the developed economies worldwide, which represent the major consumption markets (Lu Sheng, 2019). Today Asia is characterized by a more comprehensive supply chain system than other continents - US and EU - where the attention is on designing and branding, not on manufacturing (Chen et al., 2017).

In this particular configuration, China is being the anchor economy for its region but at the same time it is deepening economic links with emerging economies beyond Asia (McKinsey, 2018). China's trade with emerging economies around the world – China-South Trade – rose 11-fold between 1996 and 2016, while North-North trade increased only twofold (McKinsey, 2018).

China's effort to seize and exploit these countries potential in the T&A industry is aimed at laying a solid foundation to advance in the international value chain, and above all at addressing its current challenges and weaknesses we have exposed in the previous paragraph. Indeed, China would be better to not look at the Asian developing countries as potential competitors, but rather as economic partners, affiliates or even incorporated entities.

To improve its economic relationship, China stipulated new trade agreements, such as the **Regional Comprehensive Economic Partnership (RCEP)**, which is a Free Trade Agreement (FTA), stipulated in 2012 between China, Japan, South Korea, Australia, India, New Zealand and the ten members of the Association of Southeast Asian Nations (ASEAN) in the attempt to eliminate existing trade barriers and create a collaborative supply chain. RCEP members export around $405 billion of textiles a year (more than half of the global total) and import around $115 billion (The State of Fashion, 2019). This configuration is called ***South-South trade*** (which also refers to The Comprehensive and Progressive Agreement for Trans-Pacific Partnership **(CPTPP)** between Asia and South America countries**)** and, according to McKinsey

(2019), amid expectations it will increase from around 25 percent of global trade at present to around 30 percent in 2030.

At companies' level, another - more radical and increasingly adopted– way for China Industry to plant its roots in ASEAN countries is by undertaking **Foreign Direct Investments** and outsourcing the production phase. Shifting from merchandise exchange with those countries to capital exchange is a common internationalization strategy of Chinese MNEs nowadays.
This phenomenon is the main focuses of attention of this work, as we will see how companies are implementing this strategy axe of trade and investment and exploiting the previously mentioned countries' catching – up process dynamics, not only towards neighbouring Asian countries, but also African developing ones.

1.7.4 Asian Countries' T&A Industry Development

Among the Asian developing and emerging countries that are improving their Textile and Apparel Industry, we list the most relevant potential partners or competitors for China:

Bangladesh is experiencing an increasing international attention as sourcing textile and apparel industry, which has been developing in recent years and drags the entire country's economy (contributing a 6% average rate of annual growth since 2007) (The Asia Foundation source). Bangladesh has the second-largest clothing export rate in the world today, behind only China, and the garment industry (which is an entirely export industry) accounts for about 80% of all export earning achieved by Bangladesh each year (The Asia Foundation source, mentioned in Brandon Gaille, 2018b). This phenomenon comes at the expenses of a poor working condition, in terms of very low salaries and workers' excessive overtimes. Moreover, no finished products from the Fashion industry is sold to the local market (Ritsumei, mentioned in Brandon Gaille, 2018b).

Vietnam has experienced a period of exceptional growth during the previous two to three decades, allowing it to transform from an extremely poor to a lower-middle class country (BDG, 2016). This growth has been driven mainly by the electronic sector, in which the well – known Vietnamese Intel is the leader, and secondly by the textile and garment sector, which have attracted investments from a majority of leading producers in the previous 20 to 25 years (BDG, 2016). Reasons for this popularity have been the huge percentage of young people on the population, the fast-growing consumer market, the political stability and its participation in FTAs through its presence in ASEAN, which could allow Vietnam to increase its participation in the global economy. The only problem is that Vietnam does not farm cotton or other kind of

raw textile materials, so its weakness lies on its dependence on foreign suppliers (such as USA) from which it imports its raw materials (Shen and Mikschovsky, 2017). The Vietnamese Government is implementing initiatives to make the country as attractive as possible to external investors, favouring the exports rates, which actually increased in recent years (Shen and Mikschovsky, 2017).

Pakistan. The majority of Pakistan's national Exports comes from Textile and Apparel Industry, but, as for Bangladesh, the country's main attraction for advanced countries investing companies is its poor and even illegal working force situation.

In the effort to face the increasing competition with emerging low-cost countries, government in China stimulated the development of inland textile suppliers, where labour costs are much lower. Recently however, even inland wages are rising, and other Asian developing countries do offer lower wages than China (McKinsey, 2019).
Even if these countries' Fashion Industry is forecasted to rise and reach the blooming situation of China, they still lag behind China in regard to international competitiveness, so that China will remain the world's leading provider of textiles and garments and top choice for many buyers in the foreseeable future (Shen and Mikschovsky, 2017).

1.8.1 China's Central Government and its influence on companies' business decisions

Business environment in China has always received great Government influence, given the characterization of the Nation as central planned economy. An example of Government effort to possess a huge control in the activity of businesses, is the fact that nowadays Chinese private companies are encouraged in investing in distressed state-owned enterprises, and struggling private enterprises are bought and then controlled by the State, while companies dealing with the *pledged-share* problem have their loan assumed by SOEs to which they become dependent.

It is difficult in China to distinguish private firms from state owned ones. Indeed, China's Industry is characterized by a "Lishu" relationship, whereby, if not state owned, Chinese firms are "state influenced". Lishu translates with "belonging to", "subordinated to", or "directly controlled by". (Buckley, 2017)

In the last decades, a series of Economic National plans have been promoted by the Government to maintain the high level of growth that China has been experiencing, to help industries to cope with the current challenges and exploit the huge domestic market, with the final aim of imposing China's dominance in the world's economy. Here we want to outline some government industrial plans that are key to capture the influence that central decisions have on fashion

industry development in China, and to demonstrate, more generally, the critical importance of the state's leadership in implementing Chinese indigenous innovation (ISDP, 2018).

1.8.2 Government's Development Plans

Belt and Road Initiatives and consequences in the T&A sector

In 2013 Chinese President Xi Jinping proposed the strategic idea to build the Silk Road Economic Belt and the 21st Century Maritime Silk Road successively, which "endowed the new time connotation for the ancient Silk Road", promoted the cooperation with Pan-Asia and Asia & Europe region, and got wide attention and positive response in the international community (Yi-Yi LI et al., 2018). The initiative is named One Belt One Road (OBOR) involves about 60 countries in Asia, Oceania, Northeast Africa, and Europe, which make up 65% of the world's population, one-third of the world's GDP, and a quarter of all the goods and services world's exchange (Shen and Mikschovsky, 2017). The Belt and Road Initiative (BRI) comply with the current China's ambition to play a dominant role in global affairs with China (Shen and Mikschovsky, 2017).

Silk Road Economic Belt consists in a series of six "overland corridors" connecting China with Europe, via Central Asia and the Middle East, including some countries situated on the ancient Silk Road (Shen and Mikschovsky, 2017).

The implementation of this strategy implies a huge amount of investments and funds to build connections and export markets across the regions covered. Indeed, China created a USD 40 billion Silk Road Fund to boost infrastructure investments, a USD 50 billion Asian Infrastructure Investment Bank (AIIB), a USD 50 billion BRICS New Development Bank (NDB) (Huang et Xia, 2018). Therefore, BRI is meant to leverage on the infrastructure-driven economic development that China went through in the past decades (Shen and Mikschovsky, 2017).

Those investments will for sure have an impact on Textile and Clothing Industry in China, which is thought to be positive.

> The history of trade and the history of the textile industry is one and the same. The merchants who plied the ancient Silk Road were an early model of the modern supply chain, bringing luxurious Chinese silks to Western Europe, where tailors turned them into lavish garments for the nobility (McKinsey, 2019).

In line with Xu orientation on Pakistan Investment Forum who said that China's Textile Industry is entering a new stage of transnational layout, under which MNEs objectives of

resource allocation and cross-border integration of industrial chain should be implemented by "going out" (Jiangyin Hengtongwoolen Textile, 2015), Belt and Road Initiative encourages going out investments and improves multilateral trade. To implement BRI plans, indeed, China eliminated clothing import duties for 33 developing countries and opened the import market (Shen and Mikschovsky, 2017).

Made in China 2025

In order to meet its huge soaring consumer domestic demand, Chinese central and provincial governments are implementing policies to develop a solid Industry, with the aim of moving up along the value chain and shifting the country image from being considered the "factory of the world", operating as supplier of intermediate or low quality goods in advanced countries, to being regarded as a competitive player in final high-end goods in domestic and international markets. Chinese enterprises have the potential to succeed in this objective, due to their massive productive capacity developed during these years, in terms of manufacturing capability and working force. *The major industries of Made in China 2025 plan are advanced information technology; automated machine tools and robotics; aerospace and aeronautical equipment; energy saving and new energy vehicles; power equipment; new materials; medicine and medical devices; and agricultural equipment (ISDP, 2018).*

With regard to the Textile and Apparel Industry, Chinese companies possess knowledge in every stage of textile production, from the cultivation of raw materials through fabric weaving, dyeing, finishing and sewing final garments (McKinsey, 2019). Yet, this huge production capacity alone is not sufficient to create an effective competitive advantage today. Chinese textile companies indeed have always produced low-end fabrics with no distinguishing features (EU SME Centre, 2017). They lacked key basic materials, relied on exported core components, and possessed a weak service system, so that they used to be competitive for low prices and speed of production (Liu, 2016). Today, with the increasing costs of raw materials and salaries, and the bigger competition of other Asian countries, this combination is not as effective as it was before, and China's Textile Industry is losing its appeal to external investors and buyers. Also, as income levels rise in China, more people will prefer higher quality garments. Since China has not the capability to domestically produce it, innovative and luxury fabrics need to be imported from other countries. Europe fabrics, for example, are generally viewed as more stylish and higher quality (EU SME Centre Market, 2017). In the effort to face the increasing cost competitiveness on one side, and lack of innovation and quality improvement on the other, Chinese Government must take measures to reconfigure T&A Industry supply chain. In 2015,

premier Li Keqiang launched ***"Made in China" (MIC 2025) initiative*** – inspired by Germany's Industry 4.0" – set to modernize China's industrial capability (ISDP, 2018):

> *"We will implement the Made in China 2025 strategy, seek innovation-driven development, apply smart technologies, strengthen foundations, pursue green development, and redouble our efforts to upgrade China from a manufacturer of quantity to one of quality".*
>
> (Premier Li Keqiang, 2015 – mentioned in Liu, 2016)

Made in China 2025 is a ten-year development plan elaborated by the government to enhance product quality improvement in the Chinese industries, by leveraging on technology upgrading, R&D investments, environment friendly branding and IP protection system. China's Government and Industry want to change the international perception of the label "Made in China" as a symbol of poor quality and turn it in one of luxurious and high end instead. According to National Chairman Jinping Xi, there are three transitions to happen: "From China's speed to China's quality; from China's products to China's brands; and from 'made in China' to '*created by China'*." (Liu, 2016). The strategy focuses on intelligent manufacturing in ten strategic high-tech industries such as robotics, aviation and new energy vehicles (ISDP, 2018). Textile and Apparel Industry, the sector of our concern, is not directly treated in MIC, but it represents a big share of domestic manufacturing process and incurs the consequences of the application of measures to improve technology from MIC 2025.

Chinese textile and apparel companies, indeed, cannot rely on historical craftmanship tradition or on deep-rooted know-how to improve their perceived product quality, as the label Made in Italy could guarantee. To set themselves as effective good competitors of European fashion companies, they could search for avant-garde technologies, and confer to the Made in China label the cutting-edge mark. Made in China 2025 involves replacing China's reliance on foreign technology imports with its own innovations, by letting companies innovate through research and development, dominate domestically, and produce competitive exports (ISDP, 2018). Enhancing technology development would also address the actual Chinese challenge of rising wages. Automation technologies, indeed, would help apparel companies either to save on labour and to pursue speed and *high-tech manufacturing*, which are key driving factors in fashion industry today (we analyse this argument in the third chapter). Hence, some targets for companies have been introduced, such as the increase in R&D as a percentage of sales - from 0.95 percent to 1.68 percent - and a 7.5 percent labor productivity increase by 2020 (ISDP, 2018).

Intellectual Property protection represents an issue of great concern, since it has always been very weak in China, but it is fundamental to foster companies' innovation. MIC 2025 promotes the use of indigenous IP to push companies to replace foreign IP (ISDP, 2018).

Even if MIC 2025 strategy is aimed at restricting foreign competition on domestic market, at the same time it promotes Chinese access to foreign technology. In China there is a good potential for technology development and disruption, but it would very beneficial for the country to know and to appropriate of more advanced economies know- how.

The government provides huge funding for companies to make international investments and **acquisitions.** By acquiring abroad, Chinese companies can develop their international brand awareness, investigate foreign markets and consumers' preferences and have access to their IP and know-how. (Between 2005 and 2016, Chinese companies invested $13.6 billion in Germany and $135 billion in the U.S., giving them access to IP and Joint Ventures with businesses that have already achieved the desired automation and innovation (ISDP, 2018)). Possessing the financial strength to invest abroad, China became, through the years, an increasingly important source of global capital, accounting for about 10 percent of global outbound FDI in 2017, up from just about one percent in 2000 (McKinsey, 2018).

Incentivized by government funds and the country's investment in technology, FDI activity is a possible strategy at companies' disposal to acquire externally from mature and consolidated companies the high-end manufacturing know-how and capital endowment they lack, and then improve it and exploit it domestically to seize the growing Chinese high-end market share. The combination of the acquired craftmanship capability and the innovation feature, could attach to the label 'Made in China' a new symbol of high quality, to create cutting edge brands even more valuable then consolidated European competitors' ones.

By undertaking OFDI, Chinese fashion companies can import automated equipment from Italy, Germany, Japan and Taiwan (higher counts, more energy efficient and more environment aware) and green dyes from Switzerland and Germany (EU SME Centre, 2017). In terms of distribution networks, Chinese companies investing in advanced countries could obtain direct access to final foreign customers, when they are in B2B relationship; either, they could create a Chinese brand but designed in advanced countries, thereby maintaining the fabrics in China- reaping the benefits of low cost production- but having a direct relationship with foreign final customers in a B2C relationship (EU SME Centre Market, 2017). Through Joint Ventures, they could cooperate with international producers and designers to make sophisticated and innovative yarns (metallic, water solvable PVA, blend) (EU SME Centre Report, 2017). Through M&A, Chinese brand receive foreign fashion genetic and foreign companies receive China's funding and access to its huge market (Li and Shan, 2017).

To reap the benefits of the acquired know-how, Chinese firms should build an "absorptive capacity" (Cohen and Levinthal) by establishing R&D centres in first tier cities for the development of new fibres, fabric and garment innovations (EU SME Centre, 2017), leaving low-value manufacturing activities in the inland provinces. Chinese fashion companies should learn the ability to inherit, develop and operate brand value from transnational enterprises (Yi – Yi LI et al., 2018). To enhance the value perception of Made in China, they could leverage on the traditional culture of the ancient **Tang Dynasty**, considered a very important reference pillar in clothing art, thereby attracting foreign investors and consumers with the brand spirit of national costume culture (Yi – Yi LI et al., 2018).

13th Five-year Development Plan (2016 – 2020)

Made in China 2025 strategy is outlined in the more general nation's thirteenth five-year plan that covers the period from 2016 to 2020. Its goals include shifting some production capacity away from apparel and into more complex, synthetic products such as automotive fabrics, disposables, cutting-edge protective wear and medical textiles (McKinsey, 2019). In the table below, the actual performance rates and the forecasted ones for the five year ahead since its adoption are shown. China is expecting a general lower growth rate (which includes annual labour productivity growth, export rate,) in the industry, due to the natural stabilization of the economy after a period of blooming. The challenge is to maintain a sufficiently high growth rate. As we have said in the previous paragraph with reference to the stage of development theory, the objective for China's T&A Industry is to decrease the portion of apparel production in support of textiles production increase, which is a sign of an upgrading in the industry process. R&D spending and number of patents granted increases are in line with the more general government objective to invest in technology and innovation. In general, technological self-sufficiency is an imperative aim for China's industry plans, compliant with value upgrading to be achieved. Having heavily invested on R&D capacity in the last years, China is now the **second largest R&D spender in the world**, after United States (McKinsey, 2018). Although China leads key segments of the digital economy, such as e-commerce and on-demand services, it is not yet a major technology supplier and exporter of R&D (McKinsey, 2018). For this reason, the technology road is still long and improvements must be done mostly with reference to intellectual property protection, that in China is still weak.

In line with the current sustainability trends, China's 13th five-year plan puts a lot of emphasis on energy and water consumption savings and emission pollutants reduction.

Table 2: China's 13th five-year plan for Apparel and Textile Industry		
Indicators	**Actual Performance 2011-2015**	**Goals for 2016-2020 (13th five-year plan)**
Annual growth rate for industry value added	+8.5%	+6-7%
Output of tex fiber	Reached 53 million tons in 2015, 4.5% annually	No mention
Fiber end-use ratio	46.6% apparel, 28.1% home textiles and 25.3% by the end of 2015	40% apparel, 27% home textiles and 33% industrial textiles by the end of 2020
Annual labor productivity growth	+10%	+8%
Exports	Increased by 6.6% annually, value of exports reached $291.2 billion in 2015; world market share increased by points from 2011 to 2015	Maintain a stable market share in the world export market
R&D spending as percentage of revenue	0.67%	1%
Number of patents granted		15% annually
Number of enterprises with RMB10 billion (around 1.5 billion)annual sales revenue	Around 20 enterprises	Around 50 enterprises by 2020
Energy consumption per unit of industrial value added	-20% annually	-18% annually
Water consumption per unit of industrial value added	-30% annually	-20 % annually
Emission of major pollutants	-10% annually	-10% annually
Newly mentioned areas		3D printing, cloud platform, big data, internet plus, impact of newly reached trade agreement such as TPP and AGOA

(Table Source: online article "China is building Tech Intensive https://www.textiletoday.com.bd/china-building-tech-intensive-textile-industry-leaving-low-value-business/)

1.9.1 OFDIs as means of Chinese MNEs Internationalization Strategies

So far, we have outlined the relevance of outward foreign direct investments as an important tool for Chinese companies to implement their internationalization strategies. Backed by huge government financial support, they undertook mergers and acquisitions both in more advanced countries and in developing ones. In general, we have attended at two main waves of Chinese M&As:

- the first, up until 2006, were academically regarded as aimed at accessing products' designs, brands, markets, distribution and sometimes production capacity – what has been termed *"springboard" acquisitions* (Luo and Tung, 2007).
- The second wave began in 2006 and the focus shifted to hard assets like mineral deposits and oil and gas reserves – phenomenon that has been termed *"resource seeking" acquisitions* (Bresman et al., 1999; Forsgren, 2002; mentioned in Williamson, 2010).

We analyse in a more detailed manner this phenomenon with reference to the Textile and Apparel Industry, where the internationalization strategy Chinese fashion companies are undertaking is implemented by opening the raw material supply chain in the ***upstream*** mainly

through outward FDIs in developing countries and by establishing strategic channels in the ***downstream*** mainly through outward FDIs in developed countries (Yi – Sheng Wang, 2016).

In the second chapter we are going to elaborate the data on OFDI at our disposal, trying to apply the theories on the linkages between those international expansion and the trade relationship with the countries chosen as investment destinations.
Hereby, we present the phenomenon in more theoretical terms, highlighting the main researches on the motivations and implications behind Foreign Direct Investments when these are undertaken by Chinese companies.

1.9.2 Chinese Foreign Direct Investments Literature Review

There is a lot of literature on Foreign Direct Investments and their motivations, but there is much less on Chinese Foreign Direct Investments, which is a recent phenomenon of increasing importance. Here we outline the most important theories with regard to the general FDI.

One of the main cornerstones of FDI Theory is the **OLI Paradigm** (also named Eclectic paradigm) elaborated by Dunning in 1979, according to which the extent and pattern of international activity undertaken by MNCs are determined by the interactions of three sets of interdependent variables that represent the benefits obtained: Ownership, Localization and Internalization advantages. The first one refers to the ownership of specific resources to be exploited externally. Localization advantage refers to the Country Specific Advantage (as Rugman defined in 1981), exclusive to the business in a certain country. The internalization advantage instead regards the opportunity to keep firm specific resources within the company, rather than exchange them in the market (Amighini, Rabellotti e Sanfilippo, 2010). The OLI variables explain why Internationalization occurs but do not identify its process.
Dunning (1980) also provides a classification based on the different motivations for outward FDIs, which includes four categories: a) *market-seeking investment* (when aimed at entering new markets); b) *resource-seeking investments* (when aimed at capturing some natural resources in target country); c) *strategic asset-seeking investments* (when aimed at augmenting acquiror's assets); d) *efficiency-seeking investment* (when aimed at a cost reductions). (Amighini et al., 2011).

Another pillar in FDI literature, is the theory of **Linkage, Leverage and Learning (LLL) framework,** developed by Mathews in 2002. The author analysed MNEs from the Asia-Pacific

region - the “Dragon multinationals” – as acquirors. According to his theory, latecomers use global Linkages to Leverage costs and Learn about new sources of competitive gain.

> He argues that linking with mature market MNCs, a latecomer firm may leverage knowledge, technology, and market access with the result of entering in a learning process, which can be then exploited for further growth (Mathews, 2006).

The international competitive advantage therefore, is related to the extent to which links can be established and resources can be leveraged. The possibility that resources could be leveraged depend on their inimitability, transferability, or substitutability, but also on the “absorptive capacity” (Cohen and Levinthal, 1990) of the firm, which is the capability to identify, absorb and exploit external knowledge. Differently from the OLI paradigm, according to LLL framework, the reason of firms undertaking M&A deals begin with *asset-exploring* purposes rather than **asset-exploiting** motives, meaning that acquirors do not possess specific advantages (O) to be deployed in other markets, but they are searching for them through FDI.
LLL Framework better suits the case of EMNEs – which have been ignored as object of analysis in Dunning’s study and which are not usually endowed with the sophisticated assets, such as advanced countries enterprises are.

Peng (2012) unifies the OLI theory with LLL framework, with a focus on Chinese MNCs (as an example of EMNCs) stating that they do not possess the technology requirement and managerial skills to compete on the global market. In other words, the “O” advantage is not present. To overcome their weaknesses, Chinese companies search for know-how and information outside their country borders (*Linkage*), basing on their specific capabilities which could give them a comparative advantage (*Leverage*) and develop new knowledge (*Learning*).

Starting from Peng’s research, Byung and Taewoo (2019) elaborate a new theory with reference to Chinese FDI by extending the OLI perspective through the LLL paradigm: the OILL paradigm. The main finding of Byung and Taewoo (2019) is the significant relationship between Chinese MNCs’ International Mergers and Acquisitions (IMAs) in developed countries and their learning motivation, which regard *explorative* knowledge aims rather than *exploitative*, since they look for advanced knowledge that is not available internally and try to absorb it. The authors demonstrated that Chinese MNCs want to learn from heterogeneity and engage in inter-industry mergers and acquisitions (Byung and Taewoo, 2019).

Buckley is an important reference point in FDI literature, with his study (2007) results still being hugely investigated by scholars. Some of the main conclusions he discovered and that we consider useful with respect to this work, are the attraction by Chinese FDIs to *resource rich*

countries and the indifference to their economic and political instability (Buckley, 2007), which is an important starting point to understand the motivations of Chinese acquisitions in Textile and Clothing sector, with regard to the country target.

In his retrospective work (2017) on the theory elaborated in 2007, Buckley stresses the feature of Chinese firm of being advantaged by the access to cheap capital, particularly those closer to the State - named State Owned Enterprises (SOEs). This is a source of comparative advantage for Chinese firms, that riding the wave of the financial crisis in more advanced countries, obtain easy confirmation on inputting capital in foreign enterprises, particularly those with current financial weaknesses. In exchange, Chinese firms provide easier access to the Chinese market, that otherwise would be difficult to enter in, those improving the performance of the acquired firms. That is one of the arguments behind the "strategic-asset" acquisitions by Chinese OFDI, where key intangible assets are the main objectives of the deal (Buckley, 2017).

Moreover, Buckley (2017), starting from his previous assumption (2007) on SOEs having privileged rates when accessing capital for investments abroad, adds that Private Owned Enterprises (POEs), being subject to heavy restrictions on investing abroad, could probably undertake FDI abroad for granting easier access to capital.

Many studies have outlined the peculiarity of Chinese MNC being predominantly SOE and whose investment decisions, therefore, are not necessarily compliant to a profit logic, such as for private companies, but could instead reflect the political objectives implying that the determinants may be different from those of other countries (Amighini et al., 2011).

On the correlation between target country institution and Chinese "resource-seeking" investments, contributed also Kolstad and Wiig (2009) demonstrating that, in countries with bad institutions, natural resources attract Chinese investments. In countries with good institutions, instead, Chinese investments are discouraged by natural resources. Therefore, the worse the host country institution, the more the Chinese investment is directed to natural resources., Yang and Deng (2015) demonstrated instead that Chinese firms do increase the number of CBM&A when the developed host country is rich in natural resources, contrary to Kolstad & Wiig (2009). They also supported "SAS" motives in driving Chinese FDI in developed countries, pointing out a positive correlation between the number of CBM&A by Chinese firm and the host country R&D activity, contrary to Buckley's 2007 study in which he found no significative correlation between patents and Chinese OFDI.

Luo and Tung (2007) list seven drivers of the internationalization strategy of emerging countries firms – named "latecomers" in global competition. First, the acquisition of foreign technology and brand to overcome the lack of resources. Second, the acquisition of foreign intangible assets to overcome their latecomer disadvantage, thereby the internationalization

strategy is characterized by strategic – asset seeking acquisitions. Third, to win competitors in their domestic emerging market, which is increasingly penetrated by advanced market firms. To compete, indeed, latecomers must become global and win market shares also in foreign markets. Fourth, to bypass countries barriers and export tariffs. Fifth, to mitigate domestic authorities' weaknesses and constraints, such as lack of legal protection for property rights, inefficient litigation systems and political hazards, that undermine the competitiveness of the firms. Sixth, exploit the favourable treatment of emerging market governments (case of reverse transactions). Lastly, emerging market companies adopt an internationalization strategy to leverage their competitive advantages in other emerging or developing markets (Vecchi, 2016).

We illustrate also a theory mentioned in the paper of Vecchi (2016), referable to Williamson and Anand (2013). They demonstrate how Chinese firms can succeed in their aim of upgrading, by acquiring foreign knowledge from advanced countries companies and assimilating it. But they sustain that there is no evidence of innovation in post-acquisition. Even if Chinese firms do indeed gain patents and technological products of targets firms – "hard technology and intellectual property"- through M&A deals, they do not gain the capability to innovate new products and processes (Vecchi, 2016).

Amighini et al. (2011) examined Chinese Greenfield investments and found that market-seeking motivation and asset-seeking motivation are statistically significant when acquiring companies operate in the manufactory industry, and asset – seeking motivation is also correlated to high-income host countries. These results have been subsequently confirmed by the updated study by the same authors in 2013 (Amighini et al., 2013, mentioned in Amighini, 2014). In their latest studies, the authors also showed that FDIs in resource-intensive sectors are more often located in countries with low levels of GDP.

Amighini et. al (mentioned in Amighini 2014) in 2013 pointed out, as also Buckley did in 2007, the indifference of Chinese investors to political risky countries: only State-Owned Enterprises (SOEs), which are backed by the Government, choose these targets, especially those with large resource endowments.

We can conclude, from the outlined above theories, that is academically recognised that this huge and increasing phenomenon of Chinese undertaking Outward Foreign Direct Investment is two-fold: investments directed to Developing Countries are to be considered *market or resource seeking acquisitions* – as they search for access to critical natural resources, low cost labour and process (Belussi, Rudello, Savarese, 2016); investments directed to Developed Countries are to be considered mainly *strategic asset seeking acquisitions* – as Chinese

enterprises search for knowledge (brands, new technology, R&D, and managerial and operational expertise) – or market-seeking in mature business (Belussi et al., 2016).

Inspired by the theories of Stage of Development and Flying-Geese Model outlined in the previous section, which highlight the importance of the link between T&A companies' internationalization strategies and their product export amount in the destination country, and given the high risks Chinese enterprises incur to when the cultural distance is high or the host country's institutions are weak, we now hypothesise and test in a successive and integrating paper, the application of the Swedish Uppsala model in the ways OFDIs by Chinese firms have been implemented. According to the Uppsala model, indeed, firms undertake overseas investments in foreign regions one step at a time to reduce all the possible risks associated. The first way firms have to plant their roots in a foreign country is to export there, or to observe the history of trade between the destination country and their home country, to guarantee themselves a certain flow of products exchange and relationships. Our main variable of concern, therefore, will be Textile and Apparel import from China in the host destination countries.

II CHAPTER

Chinese Textile &Apparel Firms' Internationalization Strategies

So far, we have discussed the phenomenon of Foreign Mergers and Acquisitions and Greenfield investments as instruments promoted by the Chinese Republic of China to improve the industrial value chain, making the label *Made in China* – till now associated with "poor" quality in goods – one of luxury symbol. Where Chinese companies cannot upgrade their know-how to compete on global markets, due to the lack of skills and resources, they acquire them internationally, fostered by their huge financial funds.

In this section we want to analyse the internationalizations strategies undertaken by Chinese firms by means of Outward foreign direct investments in terms of the motivations driving them, and the way they are implemented, searching for linkages between variables and data we obtained from diverse datasets.

2.1.1 Chinese OFDIs analysed with China Investment Global Tracker (CIGT)

In this section with present the data on the general Chinese OFDIs extracted by the database ***China Global Investment Tracker***, compiled by the American Enterprise Institute and the Heritage Foundation that provide our work with an initial big overview. We made use of different datasets to outline the phenomenon of our concern to overcome the problem of capital round-tripping (investments whose destinations are not the effective ones) and observe the sample from different prospectives.

The size of Chinese OFDIs is huge. Since 2005 the value of China's overseas investments is $1.170.930 billion. In 2019, however, Chinese investment activity shrieked, especially larger transactions by state-owned enterprises. Host governments, indeed, followed in footsteps United States policy on Chinese inward transactions, becoming less receptive to them. The number of countries in the Belt and Road Initiative soared instead (Scissors, 2019).

CGIT Database contains documented investments worth $100 million or more. This threshold leads to the exclusion of many private investments involving small transactions and so the phenomenon could not provide us with a complete outline.

Figure 2.1. destination countries of Chinese OFDI in all industries (reported from American Enterprise Institute).

Source: American Enterprise Institute and Heritage Foundation, China Global Investment Tracker, https://www.aei.org/china-global-investment-tracker.

Another database that tracks Chinese OFDIs is MOFCOM's series, compiled on a monthly basis by the Ministry of Commerce and it is the most used one to examine foreign investments. We used CGIT because it has an advantage over MOFCOM. This last one, indeed, is required by national policy to treat Hong Kong as an external customs port. Hong Kong receives over half of Chinese funds, which flow through Hong Kong to final destinations, but the ministry cannot follow them (Scissors, 2019). CGIT instead can follow the money to the true recipient, overcoming the problem of ***capital round tripping*** and providing more accurate bilateral data. In this way, Hong Kong does not figure anymore as the most common destination country of Chinese funds, as in MOFCOM data, and the data result very different due to the relevance that tax haven countries have as recipient and acquiror countries. Indeed, Chinese MNEs invest huge amounts in Hong Kong, Cayman Islands and British Virgin Islands (BVI). Hong Kong, Cayman Islands and BVI – via the establishment of Special Purpose Entities – and these, in turn, invest more in China than in other countries. This puzzling FDI pattern can only be explained by capital – round tripping (Peng, 2012) that creates a distortion in the dataset.

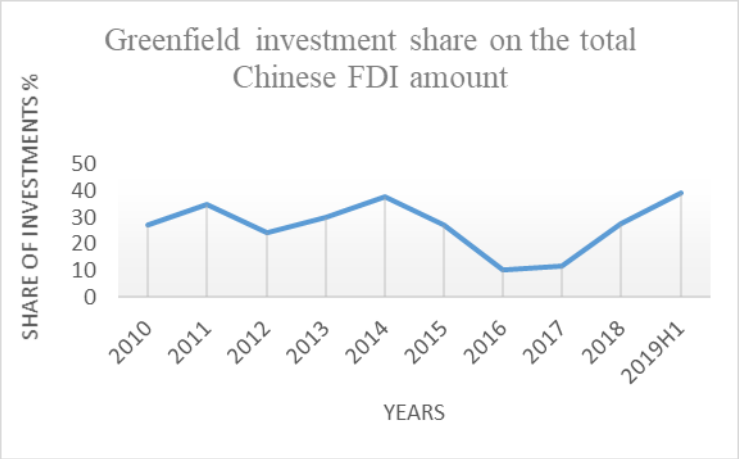
In our analysis we discuss the phenomenon of foreign investments, leaving the one of international construction contracts, which actually represents a relevant portion of Chinese Government destination funds. The total amount of construction contracts value is indeed over $ 800 billion, with developing countries, such as Pakistan and Nigeria, receiving the greater bulk of activity (Scissors, 2019). We prefer not to examine deeper this phenomenon due to the lack of information linked to the absent or hided documentation that characterize poorer countries and that could lead to a not reliable analysis, but we must take in account its relevance as Chinese foreign transaction.

Chinese overseas acquisitions reached their pick in 2016-2017, while in these last two years they began to decline, mainly due to pressures from tariffs, security worries and foreign exchange reserves linked to the depreciation of Renminbi (Lelyveld, 2019). SOEs have been increasingly warded off by host governments, because of the huge intervention of the PRC in their strategic aims and many aspects of operations, which could cover online operations, as subsidies and tax rebates (McKinsey, 2018). Private investors – which are more tolerated - instead are increasing their share in the foreign investment data, also due to their type of activity which usually does not involve sensitive sectors but is focused on unrestricted areas such as consumer goods (Scissors, 2019).

Thereby, in general, while the total number of Chinese Outward Foreign Direct Investments is diminishing, the portion of greenfield and private investments as Chinese companies' modes of entry in international markets is increasing, and it is mainly directed towards countries involved in BRI, e.g. Malaysia, Thailand, Iran, Pakistan and Sri Lanka (Huang et Xia, 2018).

2.1.2 Greenfield increased share of Investment since 2010

Here by we have a graph with Chinese Greenfield share - expressed as percentage of the total Chinese foreign direct investment amount data during the years.



Graphic 2.1. Elaborated by the author with the data compiled by the American Enterprise Institute and Heritage Foundation, China Global Investment Tracker.

After being reduced to a small portion of investments in 2016 and 2017, greenfield investments are rebounding. As we have seen, host governments are playing a big influence in determining the ways and modes of Chinese transactions, favouring greenfield investments to mergers and acquisitions. While mergers and acquisitions, indeed, lead to the issues of post integration and seizure of technology, Greenfields offer new possibility of R&D development and new jobs,

becoming well welcomed by host economies. We will recall this point later in the subsequent paragraph with reference to the phenomenon of Greenfield investments in the Textile and Apparel Industry.

Another main reason of the increasing trend of Greenfield investments as opposed to the decreasing trend of M&A deals has been the recent effort by Chinese Government to apply the provisions of the Go Global policy to private firms, whose internationalization strategy is mainly implemented by setting up wholly owned subsidiaries rather than acquire or merge with existing firms (Amighini, 2014).

2.1.3 Chinese OFDIs in Textile and Apparel Industry analysed with CIGT dataset

So far, we have outlined the phenomenon of M&A, Greenfield investments and construction contracts pursued by Chinese companies at aggregate level. In this section we want to come back to the more detailed analysis, focusing only on the Chinese Clothing Industry investments dynamics and search for the mechanisms that are driving the label Made in China to a value upgrade and an international recognition.

We first make reference to the database CIGT that captures only investments worth more than $100 million. The total amount of Chinese worldwide investments in the sector reported as "Textiles" (which includes Textile and Clothing subsectors) in our dataset, in the period 2005-2019, is nearly $8,8 billion with an overall increasing value year by year. Zero values are reported for entire years, and our direct deduction is that in those periods all the foreign transactions Chinese MNEs realized were worth less than $100 million, probably realized by Private Owned Enterprises.

Graphic 2.2. Elaborated by the author with CGIT dataset

Chinese clothing multinational enterprises undertook diverse acquisitions during the financial crisis of 2007-2008, exploiting the economic difficulties of host countries and leveraging on their stronger currency. In general, compared with the other sectors, investments from Textile and Clothing Industry do not possess the relevance in deal value that other industries covered in our database (such as Energy, Metals or Health) could have.

The threshold of $100 million or more applied on the transaction value could provide us with the information that investments in Textile Industries are getting bigger and bigger with the years, despite the opposite trend of total Chinese OFDI, remarking the Government choice to invest in a sector in which China has a big international competitive advantage. By the way, this threshold could be an obstacle for the analysis of our concern if we want to consider the phenomenon in its wholeness, where many transactions happened below that value. To solve this issue, we will make use of another database, Zephyr, which comprehends world deal data and is compiled by Bureau van Dijk.

2.2.1 Chinese FDI in T&A Industry tracked by Zephyr and fDi Markets database

With the aim to analyse the phenomenon of Fashion Industry development in China we obtained from the Zephyr (Bureau van Dijk) database 68 cases of Chinese cross-border deals occurred in the time period 2003 – 2019, and from fDi Markets database we obtained 123 cases of Greenfield investments. To confine our industry of concern, in Zephyr search we inserted the input that acquiring OR acquired firms were categorized in the Textile and Apparel sector according to NACE Rev.2 classification.

Table 1. Chinese FDI divided per type and target regions share of investments

China's Textile and Apparel Industry			Target Regions' share of investments					
Foreign Direct Investments	Time Period	Cases Number	Europe	Asia	Africa	North America	South America	Oceania
M&A Deals	2003 - 2019	68	38%	38%	1%	18%	0%	4%
Greenfield Investments	2003 - 2016	123	46%	35%	8%	11%	0%	0%
Total FDI		191	43%	36%	6%	14%	0%	2%

Table elaborated by the author. Sources: Zephyr (Bureau van Dijk); fDi Markets

Above we collected the data obtained on Chinese Foreign Direct Investments in T&A Industry, expressed in case numbers, divided per type of investments and destination regions. Except for South America, investments are widespread, with Europe and Asia receiving the greatest amount. The number of Greenfield is far away larger than M&A deals, leading us to the conclusion that, in Clothing Industry, this is the Chinese preferred type of entry investment in a foreign country.

We first analyse deeper this M&A deals phenomenon and then we will go through Greenfield investments.

2.2.2 Chinese Cross-Border Mergers and Acquisitions

From Zephyr database, we initially obtained 162 cases of mergers and acquisitions, from which we eliminated withdrawn/ just announced acquisitions, and cases in which the acquirors were individual investors (since our aim is to analyse company strategies). We also eliminated cases in which the company was considered to belong to the Textile and Apparel sector, but its products and services were not linked to the Clothing activity. We deleted cases in which the company's registered offices were located in off-shore countries, but the activity was carried out in China. We deleted cases in which the acquired firm was already a subsidiary of the acquiror, so they just figured out as capital injection cases.

We preferred to not take in consideration the suspected cases of ***capital round – tripping***, where the acquired company was registered in "tax-haven" countries and the dynamics of the transactions were not clear enough, since it is not adequate to our studies purpose. We maintained just few cases, but we do not exclude the possibility that these transactions responded to a tax avoiding logic, more than a company strategy. It is indeed very common that Chinese MNEs invest in off-shore countries to transform themselves into "foreign domiciled" companies, and then invest back in China as foreign companies to take advantage of tax and other concessions by the Chinese Government (Peng, 2012). Chinese government policy is indeed very preferential towards foreign investors, especially if these are State Owned Enterprises (SOEs) to which low-interest financing, favourable exchange rates, reduced taxation, and subsidized insurance for expatriates are granted (Peng, 2012). More of that, off-shore countries offer the possibility of circumventing fiscal pressures and hide some transactions.

Due to the lack of findings in variables research, we couldn't gather the value of all the cases of mergers and acquisitions in our dataset. Thereby, we report here their numeral values, in terms of number of cases happened in certain industry activities.

On the base of the concepts analysed in the first chapter, Chinese clothing enterprises undertake overseas expansions for a variety of reasons, that we can extrapolate by observing the target company chosen and its location (in terms of geographical position and quality of the institutions). When expanding internationally, Chinese firms could aim at the target manufacturing activity or production capacity, to overcome some higher domestic raw material

or labour costs (as in the case of target developing countries) or to upgrade their value proposal by learning from advanced techniques. We then assume that the type of activity of the company acquired, the host location and its institution effectiveness could provide us with the main motivations Chinese clothing enterprises undertake cross-border mergers and acquisitions.

2.2.3 Cross-Border M&A Deals' Target Activity

Hereby we go deeper in the first criterion - target investment activity - we reported as good indicator to give a supposition on the main motivations of Chinese enterprises when undertaking overseas deals (majority and minority investment participations).

Table 2. Cross-Border M&A Deals divided per type of target investment activity

		Target investment activity	
M&A Deals in T&A Industry	Total cases number	Manufacturing & Distribution	Retail & Operations
Acquisitions	60	44	16
Joint Ventures	8	7	1
Total	68	51	16

Table elaborated by the author with Zephyr (Bureau van Dijk) dataset.

In the table above we reported the data on Chinese Cross-border M&A deals in the time period 2003-2019, sourced by Zephyr. We divided the deals per type of target investment activities and the shape (Joint Venture or Acquisition) in which it has been realized. When the target company of Acquisitions – or the new entity set up with JV - is involved in *Textile and Apparel Manufacturing* or *Textile Machinery Manufacturing* activities, we reported it in the column "Manufacturing & Distribution". When the main activity of the company is the wholesaling, retail distribution or services providing of textile and clothing we reported it in the column "Retail & Operations".

By observing the table, we can immediately deduct that the few Joint Ventures undertaken are only mainly directed to Manufacturing activities, we have just one case of Retail & Operations type of activity undertaken with this type of expansion. The size of Joint Venture sample is too small to give validity to an assumption of correlation. Thereby, we just expect that, being the Joint Venture a type of investment in which the companies involved are supposed to collaborate and provide their relative asset values, and being Chinese textile companies main competitive advantage linked to manufacturing activities, Joint Ventures are undertaken when Chinese acquirers' principal aim is in product quality value upgrading or in production costs savings. Thereby, in general, JVs are not the preferred mode of entry choice, almost in the case of

expansions in advanced countries where the investments are mainly aimed at exploiting already existing assets related to services and operations along the fashion supply chain, since they would require certain capabilities that Chinese companies either do not possess or are not searched for by other foreign companies.

2.2.4 Chinese Cross Border M&A deals in T&A Industry by Host Country income classification.

Here we want to make a further classification on Chinese Clothing MNEs Cross Border M&A deals, and divided them per their destination countries' economies, either Developed or Developing.

Table 3. Chinese Cross-Border M&A deals in T&A Industry divided per destination countries' economies classification and target investment activity.

M&A Deals in T&A Industry	Cases numbe	Target investment activity	
		Manufacturing & Distribution	Retail & Operations
Developed countries	59	42	17
Developing countries	9	9	0
Total	68	50	17

Graphic elaborated by the author with Zephyr (Bureau van Dijk) dataset.

We have categorized host countries by their income classification compiled by the World Bank. World Bank assigns the world's economies into four groups according to their GNI per capita: high, upper-middle, lower-middle, low.

Table 3.b. World Bank's Countries classification by income

Threshold	GNI/Capita (current US$)
Low-income	< 996
Lower-middle income	996 - 3,895
Upper-middle income	3,896 - 12,055
High-income	> 12,055

Table elaborated by the author with the World Bank Income countries classification

Low- and middle-income economies are usually referred to as *Developing Countries*. Upper-middle income and high-income economies are referred to as *Developed Countries* (World Bank).

We chose to split target countries according to this criterion, because macro-geographical areas subdivision would have not been useful, since some areas – such as Latin America and Oceania – were reported with zero values in table 1, and no relevant analysis would have been done.

One of the first glaring conclusions we draw by observing the table is that we have just 9 investments in Developing countries, and these ones are aimed only at Manufacturing activities. Specifically, Acquisitions' developing target countries are Pakistan, Congo, Indonesia, Uzbekistan and Vietnam. All of them had as targets companies specialized in textiles and fibres manufacturing and spinning. The three acquisitions registered in Pakistan had as target the same company, Masood Textile Mills, which is a multinational enterprise engaged in the manufacture and sale of cotton/synthetic fabric yarn.

We will see later in this chapter, referring to the case of Greenfield investments, that those developing countries chosen by Chinese companies to build factories are endowed with raw materials and low labour costs, two factors that made China a giant in the Clothing Industry once, but that now are disappearing, potentially favouring the birth of solid facilities in these new grounds that Chinese enterprises are exploiting. This represents the main reason why China is said to capture the economies of its close developing countries.

The bulk of acquisitions is directed to developed countries, mainly European. The investments are diversified in terms of type of activity captured. Indeed, Chinese clothing companies search for investment in manufacturing activity both in developing and developed countries. In the first case, they try to exploit the more flexible labour law provisions and richness of raw materials, in the second case, they search for human skills. Traditional craftmanship and technician heritage are important competitive advantages in the Clothing Industry that are linked to the past and the history of certain countries and difficult or even impossible to replicate without appropriating of it. As we said in the previous chapter, Chinese enterprises lack the value-adding product know-how and management capabilities to compete with well-known global brands, so they need to search for them internationally by their participations in foreign companies already possessing them.
Other than in Manufacturing activity, Chinese investments in advanced countries are aimed at Retail and Distribution assets. Through their foreign subsidiaries, indeed, Chinese acquirers

obtain the linkages, the networks and operation and marketing management skills they need to enlarge their markets and to solve the integration issue that characterizes Chinese companies undertaking overseas investments. Furthermore, establishing a certain proximity to occidental costumers is a relevant source of competitive advantage in the fashion sector nowadays. either with the aim to establish a certain proximity to occidental costumers – which is a source of competitive advantage in fashion these times - and to learn from foreign advanced systems in the value upgrading achievement.

Other main motivations under Chinese FDI in developed economies include the support of exports and the expansion of market presence (Vecchi, 2016).

This internationalization strategy pursued by Chinese firms has been analysed a lot by the literature. By observing our sample, mainly constituted by acquisitions having advanced economies as host countries, we can assume that in the Chinese Textile Industry the majority of acquisitions belong to the category of *strategic-asset-seeking* ones. It is indeed a common view among researchers, that Chinese MNEs invest in advanced countries when looking for superior resources and skills not available at home (Deng, 2009). Strategic assets, indeed, can be defined as "the set of difficult to trade and imitate, scarce, appropriable and specialized resources and capabilities that bestow the firm's competitive advantage" (Amit & Schoemaker, 1993). We refer to this concept with the name of Resource Base Theory and Institutional Theory. According to the RBT, foreign M&As provide acquirers with an effective tool to align to their global competitors and fill their resources gap and acquire technology in a faster way than, for example, developing it internally. Institutional Theory, more specifically, outlines how emerging economies companies undertake foreign acquisitions to address their *competitive disadvantages*, incentivized by favourable home government policies. Made in China 2025 Plan and Belt and Road Initiative are example of China Government support on domestic enterprises to reach this type of objectives and which is reflected also in the Textile Industry current dynamics. In a contest in which China must reconfigure its competitive advantage, due to the changed conditions that once constituted its winning levers, it is more appropriate to sustain that Chinese firms internationalize to address their competitive disadvantages, more than to exploit their competitive advantages (Child & Rodrigues, 2005).

2.3.1 Greenfield Investments in Textile and Apparel Industry

Greenfield investments are the preferred mode of entry in foreign countries of Chinese clothing enterprises. From fDi Markets we obtained 123 cases of Greenfield investments, where 119 are cases of new physical projects and 4 are expansions of existing investments that create new jobs and capital infusions. Even though greenfield investments in our dataset are reported until the year 2016, they still represent the greatest portion of FDI cases of Chinese companies in the Textile and Apparel sector. The year 2003 as the first year does not constitute a limitation because Chinese international expansions only boomed in the 2000s, promoted by the Go Global Policy (Buckley, 2008). The year 2016 instead is a limitation, because we know from previous analyses that greenfield investments share has been increasing since then. Yet, our examination has a good validity to explain the increasing phenomenon.

Below we reported the graphic elaborated on the value of Chinese greenfield investments based on our total data (with value expressed in millions of US dollars), divided per target country and capital invested.

Graphic elaborated by the author with fDI Markets dataset

As we can note in the graph, Chinese greenfield investments in Clothing Industry have covered many world regions in the time period of our analysis, with a particular concentration in Ethiopia and United States. In the next section we will go through this Chinese location choice, because it constitutes a certain relevance in the Fashion Industry panorama nowadays.

2.3.2 Chinese Greenfield investments in T&A Industry divided per destination countries' economies and investment activity.

In this section we report the cases of greenfield cases from our fDi Markets dataset to highlight the differences in the investments when the host country is categorized as Developed or Developing, according to the classification compiled by the World Bank, showed in table 3.b.

Thereby, we gathered the data in two tables, 4.a and 4.b. The first one is expressed in absolute terms, the other one is expressed in relative terms to make a clearer comparison.
In both cases the values reported are expressed as number of greenfield investments completed, and not as capital investments flows.

Table 4.a. Greenfield investments cases number divided per destination countries' economies and investment activities. Values expressed in absolute – numerical terms.

Greenfield Destination Countries	Cases number	Investment Activity					
		Design, Development & Testing	Headquarters	Logistics, Distribution & Transportation	Retail	Sales, Marketing & Support	Manufacturing
Developed Countries	95	4	8	6	27	34	16
Developing Countries	28	0	0	0	2	0	26
Total	123	4	8	6	29	34	42

Table elaborated by the author with fDi markets dataset

Table 4.b. Greenfield investments cases number divided per destination countries' economies and investment activities. Values expressed in percentage.

Greenfield Destination Countries	Cases number	Investment Activity					
		Design, Development & Testing	Headquarters	Logistics, Distribution & Transportation	Retail	Sales, Marketing & Support	Manufacturing
Developed Countries	77%	4%	8%	6%	28%	36%	17%
Developing Countries	23%	-	0%	-	7%	-	93%
Total	100%	3%	7%	5%	24%	28%	34%

Table elaborated by the author with fDi markets dataset

We can immediately note, by observing the tables, that cases of Developed economies host locations are more frequent than Developing. In relative terms, indeed, the first type is equal to 77% out of total and it is directed towards the foreign implementation of all industry activities, with a particular emphasis on Retail and Sales assets. Greenfield investments in Developing countries instead have been aimed at Manufacturing set of activities in the 93% of total cases, with zero cases for the other operations, with the exception of two cases in Retail.

We could conceptually divide the investment activities in two main groups: the first would comprehend Manufacturing only, the second one would comprehend all the other ones (Design, Headquarters, Logistics, Retail and Sales). All the activities of the second group, although they are different in typology and strategy intention of the subject that pursue them, they all have in common the feature of being closer to "service" type of activity, more than the production cycle. These are linked to the foreign existing networks, infrastructure and favourable institution conditions, that Chinese companies usually lack in their domestic T&A apparel industry.

The evident correlation we have in the table – between developed countries chosen and investments in "Services" activities – and between developing countries chosen and investment in Manufacturing - is supported by the literature analysed till now in this work. Chinese greenfield could be an efficient way for companies willing to upgrade in the value chain and expand their markets by choosing advanced economies as host countries, where they could find more favourable conditions to R&D, patented technologies, customers' proximity and flexible institutions, then what their domestic market offers (Peng, 2012).

We collected the same data also with reference at the amount of flows invested. Below the tables with the derived values.

Table 5.a. Greenfield investments' capital invested divided per destination countries' economies and investment activities. Absolute values.

Greenfield Destination Countries	Capital Invested ($ MLN)	Investment Activity					
		Design, Development & Testing	Headquarters	Logistics, Distribution & Transportation	Retail	Sales, Marketing & Support	Manufacturing
Developed Countries	1.622,2	15,2	276	140,31	391,3	20,9	778,42
Developing Countries	2.227	0	0	0	36,2	0	2.125
Total	3.849,2	15,2	276	140,3	427,5	20,9	2.903,4

Table elaborated by the author with fDi markets dataset

Table 5.b. Greenfield investments' capital invested divided per destination countries' economies and investment activities. Values expressed in percentage.

Greenfield Destination Countries	Capital Invested ($ MLN)	Investment Activity					
		Design, Development & Testing	Headquarters	Logistics, Distribution & Transportation	Retail	Sales, Marketing & Support	Manufacturing
Developed Countries	42%	1%	17%	9%	24%	1%	48%
Developing Countries	58%	-	-	-	2%	-	95%
Total	100%	0,39%	7,17%	3,65%	11,11%	0,54%	75,43%

Table elaborated by the author with fDi markets dataset

While Developed Countries receive the greatest number of investments, in terms of amounts of capital flows received, as we denote in table 5.a., Developing Countries receive the greatest

portion. We suppose this is mainly due to the huge costs of infrastructures that are absent in poor places and need to be built places in order to undertake ordinary companies' activities. In contrast, infrastructures are present in advanced economies and exploited by Chinese acquirers.

At luring this enormous capital flow from China, are the developing countries' low labour costs and the virgin amounts of harvested cotton areas. Indeed, this phenomenon has been increasing during the years, following the constant rise in Chinese salaries and cotton price. As we have said with reference to M&A deals, Greenfields in developing countries are attracted to natural resources and size of markets (Amighini, 2013; Buckley, 2007).

The inflow received from China could be very beneficial both for acquirers in their resource-seeking investments and for host developing economies in their industrialization process.
Following the *flying geese model* we talked about in the previous chapter, we know that the interaction between Asian companies – which are the leaders in Textile world market – and the enterprises in Africa or developing Asia could bring precious know-how and capabilities to create a functioning value added manufacturing sector and transform agrarian societies to partially solve these countries' persistent poverty problem.

CHAPTER III

Projections On China's T&A Industry Development And Relevant Cases

In the previous chapters, we outlined the relevance of Outward Foreign Direct Investments in Chinese T&A companies when implementing international strategies. We have seen that those investments are directed towards both Developed and Developing Countries. In the first case Chinese companies aim at exploiting assets related to Retail, Branding, Logistics activities present in the destination countries, undertaking the so called *strategic-asset seeking investments*. In the second case, Chinese aim at exploiting existing foreign natural resources, to take advantage of low production costs, through investments that are named *resource-seeking* by the literature.

In this chapter we want to report a real case of a Chinese multinational enterprise, Shandong Ruyi, that has successfully implemented both these internationalization strategies, resulting in the most prominent Fashion Industry player at global level. We also give some insights on the local and global markets in which Chinese T&A companies operate, which are useful to understand the required value proposal to put at the centre of their strategic decisions. Lastly, we outline the case of Ethiopia as huge Chinese investment receiving country in T&A sector that gives some input in understanding the future projections of the always more globalized Fashion Industry.

3.1.1 Shandong Ruyi's Internationalization Strategies

At undertaking OFDIs in Chinese Fashion Industry, there are two categories of investors. One is represented by funds, such as the Chinese Fuxing Group. The other one is represented by few listed companies that are dominant players in T&A industry, such as Shandong Ruyi, Ellasay, Fosun or Semir (Li & Shan, 2017). Their business model and their internationalization strategies are very similar to Western conglomerates (namely, LVMH, Kering Group, Inditex, Richmont) that won huge market shares by using the formula of taking all under their wings, leaving asphyxiant spaces to competitors. Fashion Industry is indeed a type of "winner-takes-all" (McKinsey, 2019) industry, in which the best players are the top players. These companies

could have invested either in *brand value* (such as LVMH) or in *operational efficiency* (such as Inditex) to build their competitive advantages (McKinsey, 2019). In both cases, acquisitions and greenfield investments have been necessary tools to reach their aim.

The most important key success factor of these giants of Fashion Industry winning formula, that Shandong Ruyi is effectively replicating, is the Brand acquisition strategy. By following the categorization employed by Li and Shan (2017) on the strategies' adopted by companies according to diverse investments types in Fashion Industry, we classify Brand acquisition strategy in Horizontal – when occurs in the same industry – and Vertical – when occurs in different phases of the industry chain.

Referring to the real cases of Shandong Ruyi's investments, we report vertical and horizontal strategies one at time in the next sections.

3.1.2 Shandong Ruyi's *Multibrand Strategy*

With the name of brand acquisition strategy of Horizontal type we basically refer to ***multi-brand strategy,*** which is the companies' practice of acquiring as many as possible brands in their portfolios, with the aim of capturing the synergies of their integration and sharing of fixed costs and facilities, but also with the aim of exploiting other brands' market shares. In China fashion market, indeed, where the price competition is increasing and the median product life cycle is diminishing, brand marketing has become a determinant factor to be worked on to gain consumers' affiliation.

We have already seen in Chapter 2, by observing our M&A deals database, that this type of acquisition strategy is applied by Chinese firms in Developed Countries, where not only well-known brands exist, but also the structures and the facilities to learn and incorporate high-end garment techniques. Shandong Ruyi, sustained by its huge financial funds, has cleverly invested in European relevant brands, exploiting the macroeconomic financial difficulties linked to the 2007/2008 crisis and the devaluations. To name some of these target brands:

- The affordable luxury French brand SMCP, symbol of high-quality clothing manufacturing and source of enormous competitive advantage for Shandong Ruyi;
- The luxury clothing manufacturer and retailer Aquascutum, which could provide Shandong not only with know-how capabilities but also with networking and important linkages.
- The high-quality shoes, bags and clothing manufacturer Bally International, to which Shandong is still dealing but it is very likely to finalize the acquisition very soon.

These are only few of the overseas majority acquisitions undertaken by Shandong Ruyi, resulted in over 4 billion dollars invested in the last three years (Fashion United data, 2018). The Chinese conglomerate, which has recently showed up on the fashion market, is not only following in the footsteps the giants of the markets, but it is ready to compete with them.
Li and Shan (2017) in their paper reported the similar case of the Chinese multinational ELLASAY, that also completed the acquisition of numerous European clothing brands, and illustrated the increase in product R&D designers by 33%, the increase in income and the enhancement of the corporate profitability as a result of cooperation among the brands acquired.

3.1.3 Shandong Ruyi's *Vertical Integration*

Vertical integration is an effective way to accelerate the improvement of the industry chain, since it allows companies to better control processes, operations and relationships. Vertical Integration could be *upstream* or *downstream*, accordingly to the phases of the industry chain that companies acquire.

By acquiring the Scottish textile enterprise Carloway or the German garment enterprise Peine Gruppe (Li and Shan, 2017), Shandong Ruyi is vertically integrating its industry chain in the upstream, since it is investing in the manufacturing process (of textile spinning and clothing production) that would result in the upgrade of its value proposal. The upgrading in the product value is a direct consequence of the investments in developed countries, where the manufacturing skills are more sophisticated than Chinese. But the vertical upstream integration takes place also in developing countries, that we have seen in the second Chapter, and that we are going to exemplify with Shandong Ruyi case.

Shandong is finalizing the acquisition of the Israeli group Bagir, a private-label clothing maker that supplies to important brands such as H&M. This project could be considered as of upstream vertical integration, as Shandong aim at acquiring Bagir's huge subcontracted factories in Jordan, Myanmar, Vietnam and Romania, but also some relevant linkages with natural resources providers that Bagir is endowed with (Fashion Network, 2019). Bagir indeed is developing and expanding its facilities in Ethiopia, a country that we have seen in the second chapter, receives huge amounts of Capital inflows. In order to build a solid establishment there, Bagir is asking Shandong to provide its commercial strengths in this project (Fashion Network, 2019). Starting from Shandong Ruyi acquired stake in Ethiopia, we decide to dedicate the last section of this chapter to the T&A sector development in this country, since we deem it of a certain relevance to analyse the future projections of fashion industry.

Downstream vertical integration could be realized jointly with horizontal brand acquisition strategy, since most of the times, when acquiring brands, companies acquire also markets, logistics networks and infrastructures and merchandise services.

In the following section we analyse the structure of Chinese market in which companies like Shandong Ruyi aim to occupy a considerable share, due to its relevant actual and potential size.

3.2.1 Vertical *Upstream* Integration: Chinese Greenfield investments and Location countries' Natural Resources

In the second chapter we have proved the relevance that Developing Countries had in the location choices of Chinese greenfield investments, and the fact that all these have been implemented in manufacturing activities. We consider this category of investments as aimed at integrating vertically Chinese enterprises in the first phases of the supply chain, when they could exploit the natural resources of the countries they invest to. Among the raw material resource in Textile and Apparel Industry, cotton is the world's most important and utilized one. Therefore, the size of harvested cotton areas in a country is a good proxy for indicating the potential for the first phase of clothing supply chain, where the cotton is cultivated and then processed and ready for the subsequent phases along the Textile Industry. In the effort to search a link between cotton supply and the amount invested by Chinese greenfield we elaborated the following tables. We extracted the data from United States Department of Agriculture on cotton endowment for Developing Countries (table 3.1) and for Developed Countries (table 3.2) in which Chinese clothing enterprises had invested.

Table 3.1 Developing Countries Cotton Supply and amount invested in Textile Manufacturing by Chinese enterprises.

COTTON SUPPLY AND DISTRIBUTION (1,000 HA and 1000 480-lb. Bales)			
Target Country	**Amount invested in Manufacturing(US$ mil)**	**Area Harvested**	**Production**
Ethiopia	1.003	77	243
Rwanda	13,3	0	0
India	47,3	12600	26500
Indonesia	-	3	3
Bangladesh	72,5	44	135
Myanmar	58,6	0	0
Philippines	40	1	2
Pakistan	10	2300	7600
Vietnam	816,9	1	3
Uzbekistan	37,9	1100	713

Table elaborated by the author. Data source: https://www.usda.gov/

We can note that where Chinese enterprises had invested in the manufacturing activity, the cotton harvested cotton area was far bigger. Developed target countries in our database are mostly not endowed with cotton harvested areas, and where they do (as the case for Spain, Turkey, South Africa and United States) the investments reported are referred to manufacturing activity.

Table 3.2 Developed Countries Cotton Supply and amount invested in Textile Manufacturing by Chinese enterprises.

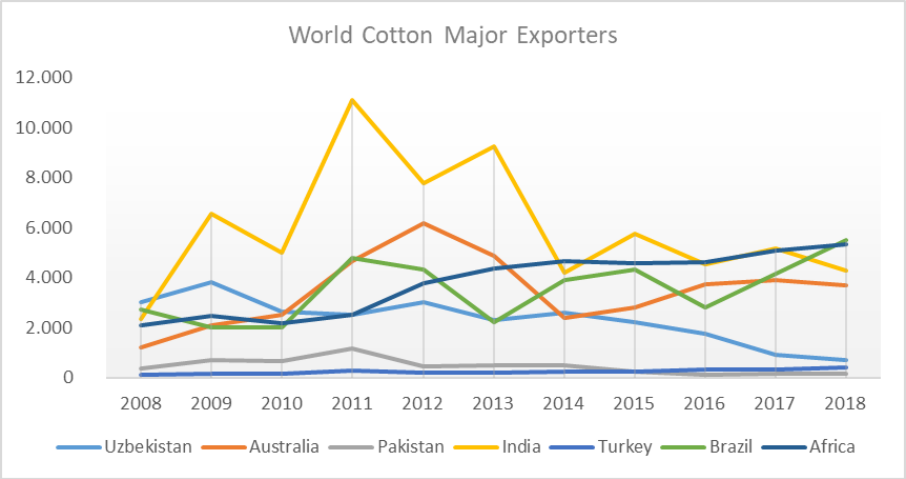
COTTON SUPPLY AND DISTRIBUTION (1,000 HA and 1000 480-lb. Bales)			
Target Country	**Amount invested in Manufacturing(US$ mil)**	**Area Harvested**	**Production**
Germany	-	20	110
Belgium	-	10	30
France	-	5	40
Ireland	-	0	0
Italy	-	5	170
Netherlands	-	0	15
Spain	8,7	275	15
Denmark	-	0	0
UK	8,7	0	2
Macedonia	400	0	5
Lithuania	0,8	0	15
South Africa	10	115	30
Hong Kong	-	0	0
Japan	-	0	215
Macau	-		
Malaysia	201,01	300	675
South Korea	-	5	775
Singapore	-	5	5
Turkey	3,61	375	3000
Thailand	32,5	0	1175
UAE	-	0	
United States	113,1	17200	5

Table elaborated by the author. Data source: https://www.usda.gov/

Unfortunately, we haven't been able to draw any relevant conclusion on the relationship between cotton areas size in developed countries and the relative investments in manufacturing, due to the presence of many exceptions, as for Macedonia and Thailand. But we can deduct, with a certain degree of assurance, that in developed countries the Greenfield investments in manufacturing are not aimed only at labour intensive industry of Cotton, as it could happen in the case of emerging countries, but also to the more technology-intensive industry of Textile, which require a certain amount of capital and innovation to be competitive. We then assume that, the type of vertical upstream integration implemented by Chinese firms investing internationally finds its main footsteps in Developing countries, where aimed at searching linkages with natural resources.

To prove our deduction on Chinese Textile companies' intent to exploit developing countries cotton areas we elaborated the graph below with the world cotton major exporters since 2008. They maintained their international supremacy during the years and they indeed proved to be present among the preferred target choices of Chinese enterprises in our database. We can note from the graph that cotton exports from Africa are on the rise, and this represents good news for a country that needs to fight poverty and could have an instrument as textile industry that proved to be powerful in gaining this objective (see previous chapter). India, which had a very

powerful momentum until 2014, is losing shares, together with Pakistan and Uzbekistan, letting us think that Africa is on the way of joining Asia in its international cotton market supremacy.



Graphic elaborated by the author with the data provided by USDA, Economic Research Service

Huge Chinese investments in textile manufacturing have been directed toward United States also. From 2016 on, due to the "trade war" between the two countries, this phenomenon has been hampered. Other than big cotton harvested areas, United States has an automated and technology sophisticated Textile sector. Keer's factory in Lancaster is an example of modern capital-intensive manufacturing:

> *Inside the 230,000-square-foot spinning plant, giant machines help clean the seeds and dirt from the cotton and send the fluff into carding machines that assemble the cotton into thick, long ropes of fiber. Workers then feed the ropes into machines that spin the cotton into spools of yarn or thread (The New York Times, 2015).*

This process leads to the lowering of production and to a greater speed of production. In times when fashion is moving toward a technological disruption, as we have illustrated in the previous section, it is necessary for companies in the sector to stay updated to survive.

3.2.2 Asian trade and investment relationship with Africa in T&A Industry and the Ethiopian case

As we can see in the last graph, among the major world Cotton exporters, Africa's group of countries, is increasing its share during the years. In this chapter we want to illustrate the main dynamics and features of African most prominent countries in Cotton, Textile and Apparel Industry, mainly in terms of trade and investment relationship with China.
Furthermore, we want to investigate the case of Ethiopia, an African country that receives the bulk of greenfield investments.

The arrival of Chinese companies in Africa started in the mid-2000s, with the Chinese Chipata Cotton Company (CCC) acquisition of cotton in the regions of Zambia, Zimbabwe, Malawi and Mozambique, followed later on by other Chinese companies, as the state-owned ginner company China-Africa Cotton (CAC).
This phenomenon was mainly driven by the rising demand of the Asian Textile Industry and the increasing price of Chinese cotton price, as a consequence of China proved position as the world's largest cotton consumer. The presence of Chinese textile companies in Africa changed the way market operated. Farmers start to compete to sell to CCC at the best prices, moving the Textile Industry forward (Carnegie-Tsinghua Center for Global Policy, 2014).
A fruitful new supply chain among Africa and Asia was established, but it went through some obstacles when governments put their pressure on trade. In order to protect and stimulate domestic cotton plantations indeed, Chinese government imposed a quota for cotton imports. Thereby, those textile Chinese investors started to import cotton lint to a mill set up in Qingdao Free Trade Zone, where it could be processed into yarn, because yarn was not restricted by quotas (CTCGP, 2014). To process more cotton, CAC's before and other ginners later, invested in spinning mills in diverse African regions, as Mozambique and Tanzania, giving to the country a precious spinning mill capacity.

Apparel sector is considered by African government to be strategic important for industry development, because it does not require sophisticated technology and can provide large-scale employment (CTCGP, 2014). For this reason, in diverse regions – but mainly in South Africa - internationalization policies have been adopted to attract foreign investments in the sector and domestic policies to stimulate the clothing internal supply. Yet, even if the amount of these grants has been considerable, clothing sector has not sufficiently been developed in South Africa.

Even when cotton Industry seems to be developed, because exports are good enough, still textiles and clothing need to be imported. This fact happens mainly in Africa, which is endowed with massive cotton harvested areas, but its mills capacity is very poor or not competitive enough when compared to that of China, which instead has a complete and established value chain.
Secondly, domestic demand is insufficient to stimulate suppliers to invest in the country. Even in the upper-middle income Southeast Africa small enterprises find it difficult to compete with huge Asian manufacturers.

As a result, many South African apparel makers still have to import fabrics and textiles from China and other Asian Countries (CTCGP, 2014), facing the relative tariffs. The role of the government in this process may be beneficial for local mills if duties on fabrics are to be reduced, but at the same time it would dampen all domestic apparel companies by raising their costs and undermining their competitiveness against imported clothes (CTCGP, 2014). The debate on the removal of the duty on fabrics is also a debate on the choice between the textile sector and the clothing sector. Surely, instead of deciding on incentives destination, a great move by the government would be that of building and improving the Industry infrastructures.

Concerning Chinese textile companies' points of view instead, they have huge incentives in investing in Africa. First of all, Africa is more advantaged in international trade policies since textile products made in Africa face fewer tariffs in foreign markets than those coming from Asia (CTCGP, 2014). Secondly, since a huge amount of fabric is imported to Africa from China and a huge amount of cotton is exported to China from Africa, free trade connections could be built and textile processing techniques could be implemented in African territory, to avoid the logistics costs sustained to travel thousands of kilometres just for two or three phases of the production chain.

We can see the implementation of this strategy in the Chinese greenfield location choice of Ethiopia, which indeed received massive amounts of capital during the years. Ethiopian huge population and low labour costs - combined with natural resources' rich endowment - make it very attractive to Asian investors. Today, Ethiopia has a target of 30 industrial parks, some built by the government and other by private investors (The Africa Report, 2019). Most of them are Chinese projects. China and Ethiopia join more than five industrial parks already in operation, valued more than $4 bn, and cover the sectors of manufacturing, textiles and apparel (The Africa Report, 2019).

Ethiopia is well exploiting the arrival of Chinese textile companies. Since then, indeed, infrastructures have been improved, including roads, trains and electricity, and large subsidies to foreign investors have been granted, as the exemption from income taxes for the first five years of business and the discharge of duties on capital goods import to industrialists who set up shop in the country (Bloomberg Businessweek, 2018).

In this sense, Ethiopia could well represent the case of industrialization process of a developing country that starts by leveraging on Textile and Apparel Industry. Starting from the natural presence of cotton areas, the labour-intensity feature of apparel sector and the helpful good relationship with the giant China, Ethiopia could aim at following the same path of China and other Asian Countries. China's greenfield investments in the projected industrial parks could therefore been mutually beneficial, accelerating this process for Ethiopia and opening the access to natural resources for the investors other than a useful geographically close access to Europe. Furthermore, since the trade situation between the two countries is still intensified because Ethiopia imports huge amount of Textile and Clothing from China, establishments in the country would help Chinese investments to cut relevant transportation costs, and eventually plant the roots for further capital flows, as illustrated in the Uppsala linear model.

3.3.1 Increasing Chinese consumers' spending power

China is again the main player of the current Industry reshaping, since it is the world's fastest-growing consumer market, accounting for more than 18 percent of all final good consumed (McKinsey, 2019). Hundreds of millions of people have joined the middle class in developing countries, and mainly in China, where they are exploiting their new spending power expressing themselves through fashion (McKinsey, 2019). Particularly, Chinese consumers are leading the positive consumption trend of luxury goods, both at home and outside, with a share of global luxury spending at 33% in 2018, up from 32% in 2017, and a share of 9% in mainland China, up from 8% 2017 (Deloitte, 2019). Chinese government reduction in import duties and the stricter controls over grey markets also contributed to an increase of domestic luxury purchases (Bain & Co., 2019). Chinese consumers' local spending instead contributed twice their spending abroad in this rising trend. By 2025, Chinese consumers will account for 46% of the global market and they will make half of their purchases at home in China (Bain & Company, 2018).

It is not only a matter of consumers behaviour, but also of domestic firms' development. **Chinese local brands** are gaining shares and strengths. In a report of McKinsey in 2018, already 30 of the top 50 FMCG brands are local, up from 20 five years ago, and six of the top seven mobile-handset brands were also local.

The increasing local purchasing is a phenomenon of a big relevance, since Chinese market is one of large scale. China's market growth can be a huge opportunity for foreign MNC's, by representing a strong driver of their revenue flows. It could be an opportunity also for international SMEs, since the barriers to get their products in China have never been lower (McKinsey, 2018).

The main source of this market growth is coming from Millennials (consumers aged 23 to 38) and from Gen Z (consumers born after Millennials) which are usually very passionate about fashion and informed about clothing brands. Millennials and Gen Z are the customers of the future. By 2020, more than 50% of the population will be considered "middle class". Consequently, luxury market is rising accommodating this new class (Deloitte, 2019), evolving in terms of product placements, communication and distribution strategies.
In the next section we highlight the main features of this new market segment, capturing the potential sources of competitive advantage that local and foreign companies in China could improve to gain share in this rapidly changing Fashion market panorama.

3.3.2 New trends in Fashion Market Demand

Generation Z, despite representing a smaller portion of the market (2% in 2018,) is already demonstrating highly differentiated preferences from previous generations (Bain & Company, 2018). For instance, these consumers are more "individualist" (search for **customized** products that reflect their unique characteristics); more prone to physical retail shopping (obviously accompanied to an online enhancing experience); and more loyal to brands, but more careful to the meaning that brands represent (Bain & Company). Thereby, companies are more careful nowadays to brand heritage, focusing less on the history it evocates and more on the **value** it represents for customers – mainly in terms of social and sustainable impact for example - and the way it represents the customers.

In recent times, consumers voice is driving ever more companies' strategies, so that their opinions have become the core focus of business, with current marketing initiatives making use of an *omni-personal approach,* irrespective of the choice of channel.

The new customers' generation we discussed in the previous chapter spend a lot of its time online, learning about fashion trends even before products could be on the market. In this contest, consumers get strongly accustomed to **immediacy**. They require fast response to their demand and their tastes are changing rapidly. Fashion is becoming more and more faster, and the role that speed will acquire in the industry is always more relevant (EU SME Report, 2017). From these conditions, ***Nearshoring*** (the production location close to the point of sale) represents a source of strong competitive advantage, and could be implemented through automation and digital technologies.

The **internationalization** of the supply chain and the worldwide expanded presences of fashion companies lead to dispersive orders and logistics issues, to which flexible manufacturing technology could be a solution.

Summing up, the current and the future fashion consumer is more careful on the values brands represent, due to its greater-than-the-past self and sustainability consciousness, and all the information he is exposed to, through online contents. His tastes change rapidly according to the small fashion product life span (the traditional *two season* business model is obsolete now), and they became less massified and more personalized. The more the brand could represent his own personality, the more the consumer is addicted to it. The more the product is customized on his personal characteristics, the more it is consumer's self-expressive, the more he needs it. Consumers demand becomes more fragmented and less predictable, production lots are reduced, resulting in a more complex logistic management (Bindi et al., 2019).

Thereby, fashion companies have to find the best suitable solution to accommodate all these new dynamics together and create a new kind of value for consumers.

An improvement in digital technology, intelligent manufacturing or the strategic use of big data could become solutions to all these different and new born issues simultaneously (Yi – Yi Li., 2018). The new luxury perceived in fashion industry is linked to the measure technology is embedded in the value chain.

3.3.3 Chinese Tech - Textile Industry

Based on the new consumers' requests of more inclusive, yet personalized products and the necessity of a certain speed of production, clothing companies are implementing digital technologies, such as Artificial Intelligence and Big data, to redesign custom engagement techniques (Deloitte, 2019) and to digitalize the manufacturing process.

In this context, some relevant tools we want to go deepen are **eBIZ** and **RFID** (Radio Frequency Indicators).

eBIZ is a powerful platform that enables the standardization of some industrial process towards the integration of the supply chain, increasing the quality and avoiding the exclusion of SMEs. The eBIZ project was launched by the European Commission (DG Enterprise and Industry) in 2008 to "harmonise eBusiness in the European Textile Clothing and Footwear industry" (Bindi, Fani, Bandinelli, Brutti, Ciaccio, De Sabbata, 2019). Its objective is to bring data analytical tools into the companies' operations to allow the flow of information along the value chain and to reinforce the collaboration among SMEs and large industrial retailers (Bindi et al., 2019). This project would change the usual paradigm of supplying stock units, into sharing design, production and distribution of the output with a unique digital entity (Bindi et al., 2019). Commercialization of devices based on these new standards of communication and the operations' integration among different industrial systems (ERP, SCM) is needed in the fashion sector, where a strong integrated supply chain is a relevant issue and a potential source of competitive advantage.

RFIDs are a kind of Internet of Things technologies that, specifically, create new services – such as traceability – and better off the supply chain efficiency. RFIDs are utilized in eBIZ project, since they are indeed very helpful for logistics management, since they aim at reducing errors in handling operations and shipment, bringing good inventory accuracy to stores and DCs since they avoid the out-of- stocks. RFIDs can help also in the process of product

personalization, by providing companies with consumers' shopping data and buying behaviours.

Other technological tools that could provide useful application in fashion supply chain are ***laser printing, 3D knitting, semi-automated sewing and automated logistics*** (McKinsey, 2019). All these technologies allow the immediate completion of the processes and the reduction of labour intensity, resulting in a flexible but strong supply chain and also, of big importance, in product sustainability.

3.3.4 Towards *Made in China* label value upgrading with Central Government's incentives

In accordance with the ambitious objective to upgrade in the industries' value proposal, and to the more particular of creating an effective luxury fashion supply to accommodate the respective increasing demand, China's Central Government could start from technology implementation. China's Clothing Industry indeed, does not have the know-how and the requirements for upgrading in textiles manufacturing, as Western competitors could have. The strength of Made in Italy for example, is based on traditional and historical skills that Chinese companies could certainly appropriate by acquiring them (as we have seen in the previous chapter) but it is difficult for them to replicate and even reinventing them to stay aligned to the market demand. In order to compete with Made in Italy in fashion luxury segment, ***Made in China*** could base its reshaping process on high tech improvement instead, to build its own value and comparative advantage.

China's Central Government – in accordance with the implementation of the 13th Five-year Program - is sustaining Textile Industry towards this objective of technological innovation and smart manufacturing. In 2015, the share of the Technical Textile Industry relative to the overall textile industry in China was nearly 25 percent (EU SME Centre Market, 2017).

This phenomenon is mainly attributable to the increasing trend of high-tech industries replacing labour-intensive industries in China's coastal regions, where the textile industry is applying new technologies that cover the whole industry chain, including cotton, spinning, weaving and dyeing (EU SME Centre Market, 2017). These regions, which include the provinces of Guangdong, Fujian, Zhejiang and Jiangsu, are more market-driven because there are fewer State-Owned Enterprises (SOEs), and the private companies are more prone to innovate and to undertake international transactions with more technological sophisticated partners (EUCCC, 2017). These companies did indeed reach important results. The MIT Technology Review 2017

lists seven Chinese companies among the top 50 global businesses that have adopted a successfully business model implementing cutting-edge technologies (Buckley, 2017)

Concerning the whole High-Tech sector in China, while the foreign direct investments in high technology areas is increasing, the data on value-added share of gross exports are still low. For all Chinese exports, domestic value added comprises only 68 percent of gross exports, from an analysis compiled by the Organization for Economic Cooperation and Development's (OECD) (Lovely & Huang, 2018). Also, when compared to the advanced countries in the West, as well as Japan and South Korea, China's level of technology sophistication is lower. For example, on average, Chinese firms register 49 robots per 10 000 workers, in contrast to Korea, Germany, Sweden and Denmark, whose relative numbers are 531, 301, 212 and 188 and a global average of 69 (according to the International Federation of Robot) (EUCCC, 2017).
Thereby, an important objective for China is to shift toward more sophisticated and innovative products, rising the share of domestic value added by its own high-tech sectors (Lovely & Huang, 2018).

Today, the conditions for a sustainable growth for China are changed, due to the increasing competition of its neighbouring countries and the shift in the fashion industry from the *Fast Fashion* trend to the *on-demand* and *nearshoring* fashion trends, that require a certain proximity to the final consumers and limit MNEs choices to outsource their production too far. Furthermore, in order to maintain its great industry sparkle, Chinese companies should be able to capture all the potential of these times and domestic market huge potential demand, to start produce high-quality products, shifting from being the suppliers of the world, to actually being effective competitors of the major advanced economies fashion players.

Conclusions

Outward Foreign Direct Investments (OFDI) undertaking is an increasing phenomenon in China that, given the relevance of this huge country on the international stage, deserves research attention. During the years a lot has been studied on the main drivers of this phenomenon and its implications, sometimes applying the vast academic paradigms derived from the study of OFDI by DMNEs, and sometimes instead denying to apply them in the case of EMNEs (or more specifically Chinese MNEs) and proposing alternative schemes. In this work our aim was to investigate OFDI by Chinese firm specifically in the Textile and Apparel Industry, since we deem this Industry of a certain relevance as a driver of the economic development and industrialization process that China has incurred to in the last twenty years. Indeed, first Chinese multinational enterprises were born to supply Western fashion companies with their semi manufactured clothing, initiating a learning process and facilities building activity that today are contributing to provide Chinese textile and apparel firms with necessary skills to compete internationally. Furthermore, T&A Industry is going through a period of reshaping, of which China is one of the main protagonists.

Thereby, academic literature and data on the current economic and legal situation in China have provided our work with a variety of reasons to explain the surge of OFDI by Chinese T&A Enterprises, and we have collected all of them in the first chapter. Here we grouped them in two main groups:

- Increasingly costly raw materials and workers' salaries in domestic market, that incentive Chinese enterprises to undertake acquisitions and joint ventures in resource rich countries;
- The lack of design and management skills, that incentive Chinese enterprises to undertake acquisitions and joint ventures with high end specialized partners in advanced economies countries.

At the domestic level, China's Central Government supports companies with incentives for technology innovation and R&D activity to develop internally value adding products and services. At the international level, government grants (mainly to SOEs) easy access to funding for OFDIs, in order to acquire externally the assets they lack or they are not capable of implementing alone.

Despite the easy access to financial funds and their huge capabilities, still Chinese firms' internationalization strategies are risky. Past FDIs by domestic firms demonstrated the difficulty of Chinese multinationals in integrating in foreign countries, that increases with the cultural distance between them. Furthermore, many Chinese Greenfield investments are directed to developing countries, where institutions' effectiveness is weak and the political situation is instable. In this work we assume – and then we test with a paper to be integrated – that Chinese MNEs in T&A Industry undertake overseas expansions following the Uppsala linear model, according to which enterprises establish their operations in a foreign country one step at time. In our case our main variable of concern to indicate this "gradual" approach is the amount of Textile and Apparel imports from China that the destination country had before the effective investments. We theoretically justify the application of Uppsala linear model in our research case, with the actual phenomenon of Regional T&A Supply chain that is currently intensifying between China and its neighbouring South-East Asian Countries, and the models of Flying-Geese and Stage of Development, based on China's trade and investments relations with foreign countries.

On these theoretical premises, we obtained data on Chinese OFDIs from diverse datasets (China Global Investment Tracker (CGI), Zephyr and fDi Markets) to analyse them analytically in the second chapter. Our database CGIT provided our work with comprehensive data on the general phenomenon of OFDI from Chinese firms in all industries, with the relative advantage in respect to other Chinese databases, of eliminating the problem of capital-round tripping. Zephyr provided our work with data on Cross Border M&A deals and Joint Ventures of Chinese enterprise towards the world. The small size of the sample didn't allow us to draw relevant conclusions on the phenomenon, but still some interesting deductions. We have seen that JVs cases are very few, and this is probably due to the main motivations of Chinese expansions of appropriating more than "sharing" assets and the absence of interest in potential foreign partners to join with Chinese to create a new entity. The best result foreign partners aim to when dealing with Chinese investors indeed is to have a consistent financial support. Joint venture shape usually does not involve this feature. Furthermore, M&A deals in developing countries are directed to manufacturing activity, in line with the logic of resource-seeking investments of Chinese strategies. FDi Markets provided our work with data on Greenfield investments, resulting in a sample of larger size than the one extracted from Zephyr. The main deduction we obtained is the prevalent choice by Chinese firms of Developing Countries as host destination when the investment is in the Manufacturing activity, and the completely unique choice of Developed Countries as host destination when the investments are in Sales and Marketing, Logistics, Headquarters and Design activities. In line with the common applied logic of

resource-seeking type of investments undertaken in Developing Countries and strategic asset acquisitions type of investments undertaken in Developed Countries.

In the third chapter we presented the case of one of the most prominent players in the Chinese fashion market nowadays, which is implementing the international strategies we previously had talked about. It is the case of Shandong Ruyi multinational, of which we highlighted the foreign mergers and acquisitions undertaken, dividing them in two main groups: multi-brand strategy and vertical integration strategy. We reported also the case of Ethiopia – as symbol of a rising T&A Industry in Africa - to empirically evidence the mutually beneficial consequences derived by a trade and investment relationship with China. Lastly, we have illustrated the main dynamics of Fashion market in China, suggesting the final aim of Chinese fashion enterprises to capture the huge potential of Chinese demand on luxury products, and the need to create their own value-proposal in pursue this objective, changing the value perceived of the label *Made in China* and making it one of high-quality symbol instead.

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Appendix

Table 1.A Chinese Mergers and Acquisitions. Zephyr (Bureau van Dijk) dataset.

Acquisition Year	Target Name	Target Country	Target Activity	Country Income Classification	Deal type
2011	Neucel Specialty Cellulose Ltd	Canada	Manufacturing & Distribution	High	Acquisition
2004	Hilados Y Tejidos Puignero Sa	Spain	Manufacturing & Distribution	High	Acquisition
2018	Anli Rus Ooo	Russian	Manufacturing & Distribution	Upper	Acquisition
2018	New Millenium Sports Sl (Brand: Kelme)	Spain	Manufacturing & Distribution	High	Acquisition
2005	B&H Research Ltd	Britain	Manufacturing	High	Acquisition
2016	Tm Lewin & Sons Ltd	Britain	Manufacturing & Distribution	High	Acquisition
2004	Hynedale Ltd	Britain	Manufacturing & Distribution	High	JV
2016	Taylor & Lodge (Huddersfield) Ltd	Britain	Manufacturing & Distribution	High	JV
2016	Desseilles Laces Sas	France	Manufacturing & Distribution	High	Acquisition
2016	Groupe Smcp Sas	France	Retail & Operations	High	Acquisition
2018	Naf Sas	France	Manufacturing & Distribution	High	Acquisition
2015	Levitas Spa	Italy	Retail & Operations	High	Acquisition
2014	Conceria Del Chienti Spa	Italy	Manufacturing & Distribution	High	Acquisition
2016	Berkshire Blanket Inc.	US	Manufacturing & Distribution	High	Acquisition
2014	Metropol Aps	Denmark	Manufacturing & Distribution	High	Acquisition
2017	Institchu Pty Ltd	Australia	Retail & Operations	High	Acquisition
2014	Peine Gmbh	Germany	Retail & Operations	High	Acquisition
2019	Denham Group Bv	Netherlands	Manufacturing & Distribution	High	Acquisition
2014	Masood Textile Mills Ltd	Pakistan	Manufacturing & Distribution	Lower	Acquisition
2015	Masood Textile Mills Ltd	Pakistan	Manufacturing & Distribution	Lower	Acquisition
2018	Challenge Apparels Ltd	Pakistan	Manufacturing & Distribution	Lower	Acquisition

2008	Gierlings Velpor - Veludo Português Sa	Portugal	Manufacturing & Distribution	High	Acquisition
2018	Bally International Ag	Switzerland	Manufacturing & Services	High	Acquisition
2014	Beste Spa	Italy	Manufacturing & Distribution	High	Acquisition
2016	Wellard Ltd	Australia	Retail & Distribution	HIgh	Acquisition
2015	Dirk Bikkembergs Bv	Netherlands	Manufacturing & Distribution	High	Acquisition
2014	Glenoit Corporations Specialty Fabrics Division	US	Manufacturing & Distribution	High	Acquisition
2004	Emper Industrial Ltd	Hong Kong	Manufacturing & Distribution	High	Acquisition
2004	Congotex	Congo	Manufacturing & Distribution	Lower	JV
2008	Smart Shirts Ltd's Business	Hong Kong	Manufacturing & Distribution	High	Acquisition
2008	Pt Spotec Indonesia	Indonesia	Manufacturing & Distribution	Lower	Acquisition
2009	Classita Pte Ltd	Malaysia	Manufacturing & Distribution	Upper	JV
2009	Todd & Duncan Kinross Ltd's Business And Certain Assets	Britain	Manufacturing & Distribution	High	Acquisition
2011	Glory Raise Ltd	Virgin Island	Manufacturing & Distribution	High	Acquisition
2009	Peng Sheng Sp Ooo	Uzbekistan	Manufacturing & Distribution	lower	JV
2012	Victory City International Holdings Ltd	Bermuda	Manufacturing & Distribution	High	Acquisition
2013	Oerlikon Neumag Zweigniederlassung Der Oerlikon Textile Gmbh & Co. Kg's Carding Business	Austria	Textile Machinery	High	Acquisition
2013	Renown Inc.	Japan	Manufacturing & Distribution	High	Acquisition
2011	Smart Apparel Group Ltd	Hong Kong	Retail	High	Acquisition
2009	Xin Ma Apparel International Ltd	Hong Kong	Retail	High	Acquisition
2013	Xin Ma Apparel International Ltd	Hong Kong	Retail	High	Acquisition
2012	Fountain Set (Holdings) Ltd	Hong Kong	Manufacturing & Distribution	High	Acquisition
2006	Stella International Marketing Co., Ltd	Malaysia	Retail & Operations	Upper	Acquisition
2007	Stella International Holdings Ltd	Cayman Island	Manufacturing & Distribution	High	Acquisition

2014	Avista Inc.	Korea	Manufacturing & Distribution	High	Acquisition
2016	Oneworld Star International Holdings Ltd	Virgin Island	Manufacturing & Distribution	High	Acquisition
2016	Oneworld Star International Holdings Ltd	Virgin Island	Manufacturing & Distribution	High	Acquisition
2015	Ise Commerce Co., Ltd	Korea	Retail and Operations	High	Acquisition
2016	Ygm Clothing Ltd	Hong Kong	Manufacturing & Distribution	High	Acquisition
2017	East Light International Investment (Hong Kong) Ltd	Hong Kong	Retail & Operations	High	Acquisition
2015	Victory City International Holdings Ltd	Hong Kong	Manufacturing & Distribution	High	Acquisition
2018	Descente China Holdings Ltd	Cayman Island	Retail & Operations	High	JV
2014	Krizia Spa's Moda Division	Italy	Manufacturing & Distribution	High	Acquisition
2009	Chuama Oao	Uzbekistan	Manufacturing & Distribution	Lower	Acquisition
2015	Juita Gulshana Invest Ooo	Uzbekistan	Manufacturing & Distribution (Sewing Machines)	Lower	JV
2015	Kcp Gerbe Sa's Assets	France	Manufacturing & Distribution	High	Acquisition
2016	Indochino Apparel Inc.	Canada	Manufacturing & Distribution	High	Acquisition
2016	Gruppo Coin Spa's Excelsior Milano Business	Italy	Retail & Operations	High	Acquisition
2017	Shinto Holdings Inc.	Japan	Retail & Operations	High	Acquisition
2017	Fashiondk Ltd	Hong Kong	Retail & Operations	High	Acquisition
2018	Carnevali Spa's Division	Italy	Retail & Operations	High	Acquisition
2018	Anli (Vietnam) Material Technology Co., Ltd	Vietnam	Manufacturing & Distribution	Lower	Acquisition
2017	Yanjan Usa Llc	US	Manufacturing & Distribution	High	JV
2012	Renown Inc.	Japan	Manufacturing & Distribution	High	Acquisition
2013	Carloway Mills	Britain	Manufacturing & Distribution	High	Acquisition
2012	Cubbie Group Pty Ltd	Australia	Cotton farms	High	Acquisition
2015	Lightinthebox Holding Co., Ltd	Cayman Island	Retail & Operations	High	Acquisition

2019	Bagir Group Ltd	Israel	Manufacturing & Distribution	High	Acquisition

Table 2.A Chinese Greenfield Investments in Textile and Clothing Industry

Target Country	Target World Bank Income Classification	Industry Activity Investment	Amount invested	Total amount invested per Country
Germany	Developed	Sales, Marketing & Support	2,188	83,048
Germany		Logistics, Distribution & Transportation	69,96	
Germany		Retail	3,3	
Germany		Headquarters	7,6	
Belgium	Developed	Logistics, Distribution & Transportation	6,84	6,84
France	Developed	Headquarters	2	40,3
France		Retail	32,8	
France		Design, Development & Testing	4,9	
France		Sales, Marketing & Support	0,6	
Ireland	Developed	Sales, Marketing & Support	0,6	0,6
Italy	Developed	Retail	46,5	47,1
Italy		Sales, Marketing & Support	0,6	
Netherlands	Developed	Retail	15,5	23,1
Netherlands		Headquarters	7,6	
Spain	Developed	Retail	1,3	10
Spain		Manufacturing	8,7	
Denmark	Developed	Sales, Marketing & Support	0,3	0,4
Denmark		Headquarters	0,1	
UK	Developed	Sales, Marketing & Support	2,1	51,5
UK		Manufacturing	8,7	
UK		Headquarters	40,7	
Macedonia	Developed	Manufacturing	400	400
Lithuania	Developed	Manufacturing	0,8	0,8
Ethiopia	Developing	Manufacturing	1.003	1.003
South Africa	Developed	Sales, Marketing & Support	1,7	11,7
South Africa		Manufacturing	10	
Senegal	Developing	Manufacturing	25	25
Rwanda	Developing	Manufacturing	13,3	13,3
Hong Kong	Developed	Retail	72,4	79,6
Hong Kong		Design, Development & Testing	7,2	
India	Developing	Manufacturing	47,3	47,3

Indonesia	Developing	Retail	18,1	18,1
Bangladesh	Developing	Manufacturing	72,5	72,5
Japan	Developed	Retail	18,1	18,1
Macau	Developed	Retail	90,5	90,5
Malaysia	Developed	Manufacturing	201,01	201,01
Myanmar	Developing	Manufacturing	58,6	58,6
Philippines	Developing	Manufacturing	40	40
Pakistan	Developing	Manufacturing	10	10
South Korea	Developed	Retail	18,1	18,1
Singapore	Developed	Retail	72,4	73,9
Singapore		Sales, Marketing & Support	1,5	
Turkey	Developed	Sales, Marketing & Support	1,7	36,11
Turkey		Logistics, Distribution & Transportation	30,8	
Turkey		Manufacturing	3,61	
Thailand	Developed	Manufacturing	32,5	32,5
Vietnam	Developing	Manufacturing	816,9	835
Vietnam		Retail	18,1	
Uzbekistan	Developing	Manufacturing	37,9	37,9
UAE	Developed	Retail	3,6	3,6
United States	Developed	Sales, Marketing & Support	8,2	375,2
United States		Manufacturing	113,1	
United States		Design, Development & Testing	3,1	
United States		Headquarters	218	
United States		Logistics, Distribution & Transportation	32,8	