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The Belt and Road Initiative's impact on Textile and Clothing Supply Chains in Asia: Views from Hong Kong Industrial Stakeholders

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ABSTRACT

The global supply chains in the Textile and Clothing (T&C) industry have been shaping by various forces, among them economic development policy is one of the strongest. Amid the rollout of the Chinese's new national development strategy—Belt and Road Initiative (BRI), major T&C companies see both opportunities and challenges in optimizing and restructuring the networks of their production facilities. One notable and growing trend associated with the BRI is the relocation of T&C manufacturing from China to ASEAN countries and establishment of new factories along the Belt and Road (B&R). Much has been examined about the BRI at the national level, yet little is known about how companies in the T&C industry have responded to this grand economic development plan.

This study aims to explore from industrial stakeholders' perspectives, the factors that drive and hinder synergistic, mutually beneficial development of T&C production and trade among the B&R countries. To achieve this aim, it addresses the following questions: what are the challenges and opportunities faced by T&C companies establishing or relocating production to B&R countries, and what tangible actions have been taken by them?

In-depth interviews were carried out with ten industry professionals from Hong Kong-based companies and government institutions involved with T&C trade in the Asian B&R countries, such as Bangladesh, Cambodia, Indonesia and Myanmar. The findings of this study highlight the importance of pursuing sustainable development. On one hand, there is full of potential for T&C companies to achieve cost-effective production along the B&R countries through harnessing economic policy and transport infrastructure that facilitate trade. On the other hand, T&C

companies see challenges in managing culturally diversity in the workplace as opportunities for pursuing corporate development in a socially responsible manner.

In sum, this study reveals mutual supportiveness of economic and social aspects of T&C production and trade.

Keywords: Textiles and Clothing trade, Belt and Road Countries, Challenges, Opportunities, Supply Chain Management.

Introduction

China's Belt and Road (B&R) initiative, which was put forth by Chinese President Xi Jinping in 2013, emphasises on connectivity and co-operation, and provides impetus for future regional development of participating countries. The ultimate goal is to "Collaborate for Success", and provide a win-win situation for trade. Entering its sixth year, the B&R initiative has attracted widespread support from more than 80 countries and international organisations. The initiative provides impetus to the global economy in the 21st century, and creates opportunities for different sectors, particularly in the low-wage labour intensive sectors, such as the textiles and clothing (T&C) industry.

As the B&R Initiative is an ongoing endeavour, more projects are being launched and business opportunities continue to materialize. Governments and businesses are actively taking advantage of promising new opportunities, yet in the practical sense, conundrums remain unanswered. How can these parties collaborate to overcome the challenges? What tangible actions have already been taken? With the Association of Southeast Asian Nations (ASEAN) destined to greatly benefit from the B&R Initiative, how will the newly signed Hong Kong-ASEAN Free Trade Agreement further mobilize collaboration? More importantly, how are B&R Initiative projects progressing and driving local developments?

This qualitative study has been carried out to show how the B&R Initiative is transforming the development landscape. Interviews, are carried out in this study because they allow us to have in-depth discussions with industrial professionals who are active participants in the researched area. It will also provide us access to current, practical, and candid information that is not readily available.

In the next sections, an overview of the global T&C industry, the B&R initiative and economic co-operation in Asia is provided. The determinants of trade for T&C from the literature is also reviewed to understand what has been previously researched. Next, the methodology is described, followed by the finding and discussion, and lastly the conclusion.

Background

The global identity of Textile and Clothing manufacturing and trade

The T&C industry is central to the global economy and it is one of the oldest and largest export industries (Gereffi and Frederick, 2010). Many countries are highly export-oriented, and is often a starter industry for countries to engage in industrialisation for low cost labour and intensive manufacturing (Gereffi and Frederick, 2010), and foreign exchange (Lau et al., 2017).

Since the 1970s, the global T&C industry has been expanding and providing employment to millions of workers in less developed countries (Gereffi and Frederick, 2010). Leading export countries for T&C at the time were recognised to be the East Asian countries i.e. Hong Kong, Taiwan, Korea, and China. With time, the industry saw an increase in T&C exporting countries, extending to countries such as India, Pakistan, Malaysia, Indonesia and Thailand, in the 1990s. Some of the more recent additions in the 2000s include countries such as Cambodia, Bangladesh, Philippines, Vietnam, and Sri Lanka (Lau et al., 2017). Consumption in the global T&C industry is concentrated in three main regions, making them the key import markets: the USA, the EU and Japan (Gereffi and Frederick, 2010, Lau et al., 2017).

China has been the world's largest exporter for T&C since 1995 (Lau et al., 2017). In 2017, China's T&C exports to the world reached approximately US$ 109 billion and US$ 157 billion, representing 40.2% and 39.6% of the world's total T&C exports respectively (UNSD COMTRADE, 2019). The growth of China's T&C exports has been most intensely felt by its Asian neighbours, given their close geographical proximity (Lau et al., 2017). However, as labour costs have increased in China, retailers and brands have moved T&C production to other lower cost countries e.g. Cambodia, Bangladesh and Vietnam. The shift away from "Made in China" items can also be facilitated by China's B&R initiative, where the initiative provides opportunities for global T&C trade development, especially in less developed economies along the Belt and Road routes. The perception of T&C production being dominated by countries like China could be replaced by the thought of a network of interconnected countries.

The Belt and Road (B&R) Initiative and T&C trade

The B&R initiative sets out to promote economic co-operation amongst the countries involved. Designed to benefit all parties, it aims to enhance the free-flow of trade, provide efficient allocation of resources across markets and thus enhance market integration.

With the B&R initiative striving to improvement investment and trade facilitation, it opens up potential trading and expansion opportunities for the T&C industry, particularly for T&C manufacturing. Establishing T&C manufacturing plants or relocation to countries, especially in lower-income countries in the B&R, could offer economic and industrial growth. The T&C industry is well known to be a labour-intensive industry, where T&C companies have moved production from country to country in search for low-cost labour for cost advantages. Restrictions which made some countries less appealing for trade could be answered by participation the B&R initiative. It not only opens up opportunities for T&C companies, but also for the country involved. For example, the creation of job opportunities can help improve the division of labour, and consequently improve the economic welfare of the country. Barriers concerning infrastructure could be broken down over time as new infrastructure projects aimed to connect the B&R countries commences. The collaborative co-operation brought about by the B&R initiative presents unforeseeable opportunities for the countries involved, and domestic and global T&C industry.

Economic co-operation in Asia

The B&R initiative enables China to set up co-operation zones across Europe, Asia and Africa. Asia is a key region for China to launch economic trade co-operation where companies from both China and Hong Kong would be more inclined to pursue development opportunities within Southeast Asia. Countries within the ASEAN region include Brunei, Cambodia, Indonesia, Laos, Myanmar, Malaysia, Philippines, Thailand, Singapore and Vietnam, who are all in the B&R initiative. The connectivity of these countries to China means development and expansion of the T&C industry in Asia can be supported by the advantages of the B&R initiative e.g. for resources, markets, traffic and transport, and infrastructure. Along with Southeast Asia's existing rapid expansion of their industrial production sector and investment growth in infrastructural development in recent years (HKTDC, 2017), the Initiative can further strengthen Southeast Asian countries' close-knit supply chain relationships with China.

Determinants of T&C bilateral trade identified in the literature

Studies using econometric analysis have studied the influence of various factors on bilateral trade. These studies usually examine the trade flow between countries, and factors such as GDP, distance and exchange rates are common indicators used for analysing trade performance (Hout and Kakinaka, 2007). Sousa et al. (2008) outline internal and external factors to describe factors that influence export performance of countries. The former includes factors related to marketing and management strategies, and the latter concerns foreign and domestic market characteristics. Moreover, trade policies are also a key factor explored in the literature. For example, Hoekman and Nicita's (2008) examined how trade policies affect trade flow for low-income countries. They concluded that tariffs (e.g. administration and entry barriers) and non-tariff barriers (e.g. quantitative restrictions and technical product regulations), are significant factors of trade restrictiveness for low-income countries. Similarly, Akinkugbe (2009) examined the export performance for Africa and found that although there were reductions in tariffs and non-tariff barriers in the African countries, many trade facilitations issues e.g. poor customs regulations and administration, and restrictive trade, continue to discourage exporting in Africa.

For T&C, several authors have explored factors for the T&C industry (e.g. Chan et al., 2008; Chi and Kilduff, 2010). Again, common factors which influence trade flow include GDP, distance, population size, exchange rates, and trade policies were analysed. Interestingly, these studies which were specific for the industry, measured factors such as the country's T&C production and consumption, labour costs and regional factors. These were found to be important attributes for understanding T&C trade (Tsang and Au, 2008). These measures may provide useful grounds for exploring what challenges or opportunities T&C companies may face when establishing or relocating production to new countries, such as countries along the B&R.

Methodology

Procedure

This study adopts a qualitative approach to data collection using in-depth, semi-structured interviews with experts from the T&C industry in Hong Kong. Interviews were identified as a suitable method for probing discussions in order to identify and extract current and practical information (Neuman, 1997). Purposive sampling was used to recruit experts from the T&C industry to explore the factors that organisations value when considering to establish manufacturing firms on the B&R countries in Asia. The focus was on identifying the barriers and opportunities for trade. Industrial experts were recruited at a Belt and Road Initiative summit held in Hong Kong in June 2018. Interviews where arranged with the informants over a two-week period in July 2018.

The interviews were designed to capture the informant's perspectives and experiences (Taylor, 1994). Informants were asked to comment on the factors they consider most important and least important when considering to set up a new manufacturing base in a new country. The interviews were conducted until there were minimal generation of new information (Malhotra et al., 2012), lasting from 45 to 60 minutes. Probing technique was used where interesting comments emerged to study in more detail (Malhotra et al., 2012). The interviews were recorded, transcribed and coded using an inductive, grounded-theory approach to identify trends among the responses (Bryman and Bell, 2015).

Sample

In this initial study, ten industrial experts from six private sector organisations and four governmental institutions. All informants were from organisations/institutions with involvement in T&C manufacturing with at least one B&R country in the ASEAN region. The informants included two directors, two managing directors, one deputy director, two senior managers, one production manager, one head of research and development, and one officer. For confidentiality purposes, the informants' have been assigned a pseudonym (see Table 1).

Pseudonyms	**Nature of business**	**Position**	**Countries invested**
A	Trading	Senior Manager	Bangladesh; China; Cambodia; Guatemala; India; Indonesia; Jordan; Nicaragua; Philippines; Sri Lanka; Taiwan; Thailand; Turkey; Vietnam

B	R&D	Head of R&D	China; Cambodia; Indonesia; Myanmar; Philippines; Thailand
C	Trading	Senior Sales Manager	Vietnam
D	Government Organisation	Officer	Myanmar
E	Government Organisation	Deputy Director	Bangladesh
F	Trading	Managing Director	China; Cambodia; Indonesia; Myanmar; Philippines; Thailand
G	Production	Production Manager	Bangladesh; China; India; Indonesia; Sri Lanka; Vietnam
H	Trading	Director	Cambodia; Indonesia; Thailand
I	Trading	Director	Cambodia; Indonesia; Philippines; Thailand
J	Logistics	Managing Director	Bangladesh; China; Indonesia; Sri Lanka; Vietnam

Findings and discussion

The initial findings from this study gives insight to some of the barriers and opportunities for T&C trading in Asia. The results show factors which are commonly looked out for by T&C organisations trading in the ASEAN region. The findings firstly highlight the challenges followed by the opportunities.

Challenges faced by T&C companies establishing or relocating production to B&R countries

Adjusting to social/religious needs of workers: Cultural differences was an interesting theme which emerged from the interviews that has not been previously discussed in the bilateral trade literature. Informants strongly commented on the need to adjust to the social needs of workers of the country. As Informant B observed, there was a cultural shock in terms of the lifestyle and religious values held by workers in Indonesia.

> We did experience some cultural shock when our production first started in Indonesia. Some of the staff are Muslims and need to pray five times a day. […] We had to get the production head to redo the roster, so those staffs could have their shifts covered by those who are not from the same religion, or had no religion. We also have to hire part-time staffs to manage.

With reference to an institutional theory framework, Tran and Jeppesen (2016) describe that regulatory, normative and cognitive institutions influence the way how SMEs practice Corporate

Social Responsibility (CSR). The cognitive institution (i.e. the shared conceptions that forms social reality and meanings) entailed religious beliefs and cultural practices, which Tran and Jeppensen (2016) outlined, influenced the management within factories. Managers in T&C manufacturing companies in Vietnam recognised the importance of different religious and ethnic practices, and incorporated these into the work environment to contribute to the local community. In our study, Informant B further commented on how the company found temporary ways to overcome their problem, where short- and long-term strategies were addressed to overcome the cultural difference:

> In the short term, we provided a room in the factory for them to pray. In the long run, the company could relocate the factory nearer a temple if possible.

While the solutions presented by Informant B's company are within the boundaries of the company, providing support to local communities and cultural organisations is a further example in which T&C companies can practice CSR in the long term (Tran and Jeppesen, 2016). Support can include monetary contributions to local religious centres, schools, and other community-based organisations in the community.

Opportunities for T&C trade in B&R ASEAN countries

Lower labour cost in neighbouring countries: Companies have already recognised developing countries (e.g. Bangladesh, Vietnam and Cambodia) with lower labour wage. Informant G comments on their company's low-cost production goals is the reason behind their shift in production to other countries:

> One of our KPIs is low cost. So, for us to achieve cost effectiveness, we've had to shift our production from China to developing countries.

Previous studies have identified that increases in labour costs reduces manufacturing activity in the long run (Hodge, 2015). Hodge (2015) outline that if domestic labour costs increase faster than the rates abroad, the competitiveness of domestic relative to foreign manufacturing declines. Consequently, this would result in the reduction of exports but greater import activity. In T&C industry, low wage countries usually gain greater global market share in production and exports of T&C products (Shelton and Wachter, 2005). China was a country with inexhaustible supply of low wage workers and gained global labour advantage in the 1990s, however, the country's wages have soared rapidly with globalisation between 1997 to 2007 (Yang et al., 2010). Consequently, there has been anxiety over rising labour costs and suggestions that China is losing its cost advantage in labour-intensive industries such as T&C. The participating developing countries, such as those mentioned above, in China's B&R initiative may provide a gateway and easier access for China based manufacturers or companies to relocate their manufacturing to those countries.

Appreciation of foreign currency: China's rapid growth and economic development has meant the RMB has appreciated against other currencies, meaning labour cost is not the only cost which has become more expensive, but also general production costs are no longer as low as they were before. Informant F explains the impacts on T&C trading:

> […] because of RMB appreciation, it has led to increased production costs, rent, utility costs and labour. We needed to go to countries with a lower value of currency.

Hodge (2015) denotes that currency appreciation is associated with low manufacturing growth in the country. In particular, their findings suggest that manufactured exports, in particular more so for certain industries (e.g. T&C) than others (e.g. steel), are more sensitive to changes in the exchange rate. Consequently, T&C companies are pushed to seek production elsewhere and China's neighbouring countries become first choices. Moreover, neighbouring countries which are in the BRI could provide T&C expansion and trading opportunities. For the neighbouring countries, the establishment of more T&C manufacturing can hold greater promise for future economic growth.

Favourable business environment: With easier access to developing countries under the B&R initiative, countries which have strong political and governmental support for Foreign Direct Investment (FDI) may offer favourable opportunities for T&C trade development. Informant C talks about the business environment, outlining the business opportunities offered by the country:

> Moving production to a country depends on if they provide favourable FDI, policies, tariffs and tax incentives. Like in Vietnam, in the first 2 years you can be exempted from income tax. In 4 years, you can have 50% reduction in company income tax.

At the same time, there were also informants who also mentioned the concerns for trading in a country with an unstable political environment, as Informant D notes:

> Having our production in a country like Myanmar, we just hoped things like political wars don't start and just hope there is political stability.

In some countries such as India, the government uses industrial polices to develop a support mechanism for the T&C sector in order to attract FDI, and establish a well-diversified production and export support for the country (Lau et al., 2017).

Infrastructure - road and port: The B&R initiative encourages regional economic development in infrastructure which can thereby promote connectivity between B&R countries and allow smoother trade flows. As anticipated from the literature, infrastructure was commented on by informants, for example, Informant F outlined:

> If the infrastructure (road and port) is good, it means more transport choice and flexibility for us. Better infrastructure means reduced delivery time and transportation costs!

Countries with better infrastructure suggests higher trade and therefore higher exports to the country (Chi and Kilduff, 2010). Any improvement of transport efficiency in ports, roads, waterways and air transports, can lead to the greater gains as infrastructure plays a fundamental role in trade (Wilson et al., 2003). As commented by Informant F, reduction in time and costs in transportation will be the result of accessible and quality infrastructure. The BRI will promote future infrastructure projects and thereby presents opportunities for companies already operating, or new companies to establish, T&C manufacturing in neighbouring countries.

Location proximity to supplier/port: Location still remains an important factor in bilateral trade as it has been well noted in the bilateral trade literature (e.g. Martinez-Zarzoso, 2003; Giovannetti and Sanfilippo, 2009; Chi and Kilduff, 2010). In the interviews, the distance between the manufacturing plant and supplier or port are noted to have cost implications for trade. Ideally, suppliers of raw material who are within the country is preferred as Informant A comments:

> Raw material suppliers need to be close to the factory. […] We also check if the raw material suppliers are within the country, because if they are, it reduces transportation costs. It also means quicker deliveries, shorter lead times and things like shorter lead time and quick replenishment, and so forth.

In trade literature, transportation costs are captured by the distance variable. Ekanayake et al. (2010) elaborates that difficulties in trading for a country can be due the distance factor. For example, countries will encounter problems regarding time, access to market information and markets. The closer the distance between suppliers and the factories would mean quicker stock replenishments and therefore reduce time and cost. Geographical distance is identified in bilateral trade literature to be a factor which impedes trade (Chi and Kilduff, 2010).

Conclusion

China is one of the world's leading economies and it is emerging as one of the world's leading sources of outward investment. As China's overseas activities will expand further under the B&R initiative, the global T&C industry will also be granted opportunities to expand. This research examined the barriers and opportunities of T&C trade by Hong Kong companies who have invested in B&R countries in the ASEAN region. The findings of this study reveal that the B&R initiative provides several areas of opportunities, particularly in the economic and political developments in B&R countries for trade, and infrastructure. As the B&R initiative opens doors for opportunities, Chinese companies come face to face with social factors which were identified as a challenge for T&C manufacturing managers in ASEAN countries.

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