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Entrepreneurs and the structural transformation of the Chinese apparel industry, 1980–2020

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Entrepreneurs and the structural transformation of the Chinese apparel industry, 1980–2020

Abstract

This paper investigates the structural transformation of the Chinese apparel industry from 1980 to 2020. Following an approach of industry studies and classic business history, it focuses on the 10 largest apparel companies in the four decades since the 1980s. Drawn from a broad range of published sources and official data, it analyses the ownership transition and entrepreneurial strategies of these companies under the changing institutional context. The findings show how different types of firms were able to use regulations and policies to dominate the industry. The study contributes to literature by exhibiting the dynamics of the industry development from the perspective of companies and entrepreneurs.

Keywords: Chinese apparel industry; structural transformation; ownership transition; entrepreneurs

Els empresaris i la transformació estructural de la indústria de la confecció xinesa, 1980-2020

Resum

Aquest article investiga la transformació estructural de la indústria de la confecció xinesa des de 1980 fins a 2020. Seguint un enfocament d'estudis de la indústria i la història clàssica dels negocis, se centra en les 10 empreses de roba més grans en les quatre dècades des de la dècada de 1980. A partir d'una àmplia gamma de fonts publicades i dades oficials, analitza la transició de la propietat i les estratègies emprenedores d'aquestes empreses en el context institucional canviant. Les troballes mostren com diferents tipus d'empreses van poder utilitzar regulacions i polítiques per dominar la indústria. L'estudi contribueix a la literatura exposant la dinàmica del desenvolupament de la indústria des de la perspectiva d'empreses i emprenedors.

Paraules clau: indústria de la confecció xinesa, transformació estructural, transició de propietat, empresaris

Los empresarios y la transformación estructural de la industria de la confección china, 1980-2020

Resumen

Este artículo investiga la transformación estructural de la industria de la confección china de 1980 a 2020. Siguiendo un enfoque de estudios de la industria y de la historia empresarial clásica, se centra en las 10 empresas textiles más grandes en las cuatro décadas transcurridas desde los años 1980. A partir de una amplia gama de fuentes publicadas y datos oficiales, analiza la transición de propiedad y las estrategias empresariales de estas empresas en el contexto institucional cambiante. Los hallazgos muestran cómo diferentes tipos de empresas pudieron utilizar regulaciones y políticas para dominar la industria. El estudio contribuye a la literatura al exhibir la dinámica del desarrollo de la industria desde la perspectiva de las empresas y los empresarios.

Palabras clave: Industria de la confección china; transformación estructural; transición de propiedad; empresarios

Introduction

Due to low entry barriers, textile and apparel industries emerged as pioneers of industrialisation in most countries around the world. In Asian countries, it came about because developed countries outsourced labour-intensive manufacturing (Zhao 2013; Shih et al. 2014). China is a good example of this phenomenon. After three decades of stagnation, in 1984 China's Ministry of Textile Industry designated apparel as one of the "three pillar products" with priority on development.¹ By 1994, China had become the largest apparel producer and exporter in the world.² There was substantial growth in its output value, which increased from only CNY 1.02 billion in 1952 to CNY 13.5 billion in 1980, CNY³144.1 billion in 1994, and CNY 2.366 trillion in 2016.⁴ Behind these flourishing figures, we know very little about the interplay between apparel firms, entrepreneurs and state intervention. In this paper, we analyze the transformation of Chinese apparel firms from state control to private ownership and discuss how entrepreneurial strategies have been used to facilitate sales and exports under strong state intervention.

The development of the apparel industry in Asia has mostly followed two patterns. The first pattern is a gradual shift from import substitution to export, industrial upgrading, and even further decline, as exemplified by

most newly industrialised countries, including Japan, South Korea, Taiwan, and Thailand (Kuznets 1985; Bruton 1989; Doner and Ramsay 1994; Grabowski 1994; Gereffi and Pan 1994; Bernard and Ravenhill 1995; Chen and Ku 1999). The second pattern is export-oriented industrialisation, where the growth of apparel production in places like Hong Kong, Singapore, and the Philippines was initially driven by exports due to limited domestic demand (Lau and Chan 1994; Douglas et al. 1994; Ofreneo 1994; Au 1997). Zhang and Donzé asserted, however, that the growth of the Chinese apparel industry was unique, having undergone two separate phases of development: the export-oriented period from the 1980s to the mid-2000s and the domestic-oriented period after 2005 (Zhang and Donzé 2023).

Regardless of the model of development, Gereffi has argued that inward foreign direct investment (FDI) played a substantial role in the growth of the textile and apparel industries (Gereffi, 2008). In the 1990s, China emerged as a major destination for inward FDI from dominant players in these sectors. This was attributed to the latter's labour shortages, rising costs, as well as the quotas under Multi Fibre Arrangement (MFA), which hindered their exports and forced them to relocate production (Shaw et al. 1994; Alam et al. 2018). For instance, according to Yuasa, China attracted about 60% of Japanese outward FDI in textile and apparel industry from 1990 to 1996 (Yuasa 2001). Positive technological spillovers have been demonstrated in the Chinese apparel industry through foreign trade and FDI since the 1980s (Li and Zhu 2006; Buckley et al. 2007; Guo and Fang 2009; Xu and Sheng 2012). Since the 2000s, Chinese apparel companies began to search for approaches to industrial upgrading in the global value chain in order to transition from global suppliers to

¹ "Yikao Jishu Jinbu, Nuli Kaichuang Fangzhi Gongye Xinjumian" [Rely on technological progress and strive to create a new situation in the textile industry]. *China Textile* 1984(11): 1-4.

² "International Trade Statistics, Merchandise Trade Values, Merchandise Exports by Product Group – Annual (Million US dollar)," World Trade Organization, accessed April 15, 2022, <https://stats.wto.org>.

³ Chinese yuan renminbi (CNY) is China's official currency.

⁴ *China Industry Statistical Yearbook 1985–2020*.

branded manufacturers (Huang et al. 2006; Ruan and Zhang 2014; Zhao 2020; Ruan et al. 2021). Zhang and Donzé argue that knowledge acquisition in soft skills such as design and branding, has become more important since the mid-2000s while technology was more important in the 1980s and 1990s, and links with foreign investors remain the dominant sources (Zhang and Donzé 2023). Although they have provided some contextual development of the Chinese apparel industry, this is not enough to understand the structural transformation of apparel firms, which will be explored in depth in the following sections.

Some scholars, such as Zhao, Finnane and Sun, emphasised the impact of strong state intervention, which resulted in a series of abrupt changes in China and its apparel industry (Zhao 2013; Finnane and Sun 2018). These changes include the uniformity in Mao-era in the 1970s, the increase of non-state sectors in the 1980s and the dismantling of spindles in state-owned enterprises (SOEs) in the 1990s. With reference to policy and system changes, Shi highlighted the overall trend of ownership transition from public to private, citing township enterprises in the 1980s, private enterprises since the first half of the 1990s and foreign-invested enterprises since the late 1990s as the driving forces in the industry in the various periods (Shi 2021). This transition of the apparel industry is consistent with the general ownership transformation and system change in China, which is in striking contrast with most of the post-socialist countries, such as the central Europe and the former Soviet Union (Perkins 1994; Chavance 2017). Specifically, China shifted to market socialism prior to 1993, where state and collective ownership remained paramount but central planning was drastically reduced and markets were becoming dominant, instead of giving priority to privatisation. However, existing studies based on macroeconomic data have illustrated the general pattern of industry

development but do not reveal the dynamics of this structural transformation from the firm level. How apparel firms and their entrepreneurs reacted to the changing institutional contexts is under researched but crucial to a comprehensive understanding and evaluation of the interactions and tensions between firm decision-making and state interventions in the formation of the Chinese apparel industry.

Consequently, this paper aims to explain the formation and structural transformation of the Chinese apparel industry from the perspective of firms and entrepreneurs. The main research questions addressed are: How did the Chinese apparel industry develop from an elementary base since the foundation of People's Republic of China (PRC)? How did the structural transformation emerge and evolve after the reform and opening up? What type of companies made China the world's largest apparel manufacturer?

Methodology and sources

We follow a twofold approach based on industry studies and classical business history (Chandler 1990; Kurosawa 2018). Industry studies advocate that the specificities of each industry shape the conditions of competition and determine firms' choices of location and competitiveness. Thus, it is vital to understand an industry's dynamics within specified geographical regions before moving on to micro-level studies. Therefore, we start by examining the dynamics of the Chinese apparel industry since the foundation of the PRC in 1949. Applying the business history approach proposed by Chandler, we identify the largest players in each decade since the 1980s and analyse how they emerged, developed, declined, and ultimately impacted the industry.

Scholars working on Chinese business history, such as Frost, Ghosh and Urbansky, have argued that the availability of archival

documents on Chinese history is becoming increasingly restrained and the qualifications of scholars accessing archives on-site have been more rigorously limited for political reasons (Ghosh and Urbansky 2018; Frost 2023). This is indeed the case in the apparel industry. Unfortunately, target companies have not granted access to their archives and have rejected or simply ignored our requests for interviews. Therefore, instead of using archives, this study draws on a wide range of official and published sources from the 1980s onward. The official sources include eight different yearbooks, which span national, provincial, and municipals levels, including the Almanac of China's Textile Industry, China Textile Industry Development Report, Chengdu Yearbook, and Jilin Yearbook. The published sources include 90 articles from 65 Chinese business magazines and newspapers, which provide different perspectives of the apparel industry's development. We obtained the articles by searching keywords from the largest academic database in China, Chinese National Knowledge Internet (CNKI). Details regarding these sources are presented in the reference list at the end of this paper. Although the lack of primary sources is a limitation of our work, we believe using a range of published sources makes it possible to achieve the "triangulation of sources" and mitigate information biases (Kipping et al., 2014).

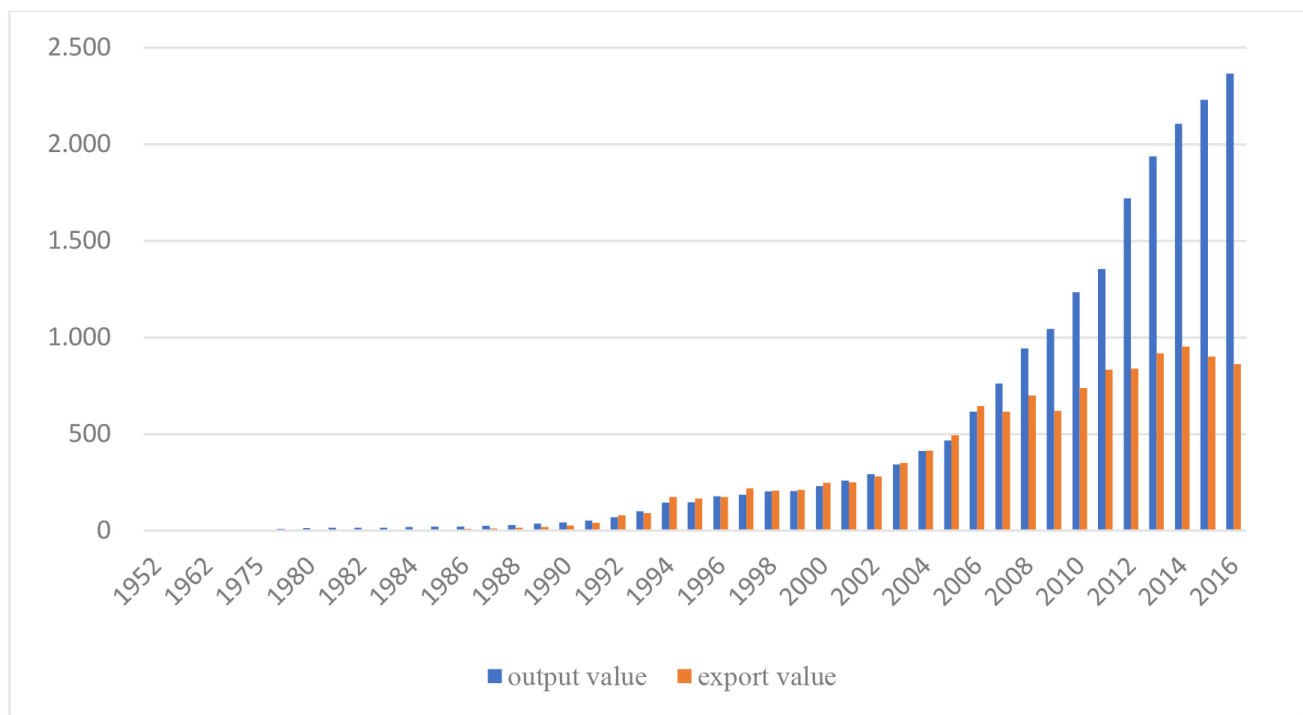
Institutional and contextual transformation of the Chinese apparel industry

Frost indicated that China's reform and opening up was not purely a state-led transformation, but partially a bottom-up gaming process (Frost 2023). Market economic activities such as underground factories and black markets persisted even at the height of socialist central planning during the Cultural Revolution (1966–1976). Some state-operated agencies

were also found conducting such unapproved and off-budget transactions in open markets (Scranton 2018). Nonetheless, our research focuses on the dominant apparel companies in different periods whose growth exhibited a strong correlation with the chronology of institutional changes. Therefore, state interventions remained a vital indicator influencing entrepreneurial activities. In this section, we briefly discuss the evolution of institutional environment in the Chinese apparel industry before moving to firm-level studies.

Apparel industry was virtually non-existent before the foundation of the PRC in 1949 after decades of wars, and clothing was mostly made by hand at home or by individual tailors (Zhao 2020). From the early 1950s to 1978, development of the apparel industry remained stagnant due to a series of initiatives of the communist government, such as an emphasis on the restoration of agriculture and heavy industry; the cloth coupon policy, which limited the demand of apparel; and the socialist transformation (*san da gai zao*), which turned China into a planned economy and rationed the production of apparel (Zhang and Donzé 2023). During the socialist transformation, former private companies were converted to public-private partnerships (*gong si he ying*), which lacked clear property rights and production autonomy, thus becoming de facto SOEs (Zhao 2016). As a result, the economy consisted solely of SOEs and collective companies (owned by local governments) and the production of private and foreign-invested companies, which accounted for 51% of the total industrial output in 1952, vanished after 1957.⁵ Apparel production barely increased ninefold during a 26-year span, from 1.02 billion CNY in 1952 to 9.1 billion CNY in 1978 (see Figure 1).

⁵ China Industry Statistical Yearbook 1985: 98.

FIGURE 1. OUTPUT AND EXPORT OF CHINESE APPAREL INDUSTRY (BILLION CNY)

Source: *China Industry Statistical Yearbook 1985–2020*; *China Statistical Yearbook 1982–2020*

Note: (1). Total industrial output value after 2011 is no longer censused and is replaced by industrial sales output value, which is slightly lower than total industrial output value. There is no data of apparel output value after 2016. (2). The output value is calculated in CNY by the Industrial and Transportation Statistics Department of the National Bureau of Statistics, while the export value is calculated in US dollars by the General Administration of Customs. The authors adjusted the export value into CNY units using the average exchange rate for the year provided by the State Administration of Foreign Exchange. The combination of these two factors has resulted in the export value of some years being higher than the output value in results.

The reform and opening up in 1978 led to the gradual shift to market economy and thus enabled the fast expansion of apparel production. The total value of apparel output experienced relatively stable growth, reaching 2366.5 billion CNY by 2016, 261 times that of 1978 (see Figure 1). Moreover, the gradual liberalisation of the economy allowed new types of companies to emerge: foreign-invested and private companies. Since then, four types of companies, in turn, have dominated the apparel industry's development: SOEs, township enterprises, foreign-invested enterprises in the form of Sino-foreign joint ventures (JVs), and domestic private enterprises. Changes in the institutional environment provided opportunities for this dynamic development.

In the early 1980s, the government initiated the reform on SOEs with the aim of decentralising

state control. It withdrew from direct operations and empowered managers (*chang zhang fu ze zhi*); gave SOEs financial responsibility (*jing ji ze ren zhi*), including the possibility to keep a portion of their surplus profits;⁶ abolished equalitarian wages; asked enterprises to take charge of distribution and sales (*zi zhu xiao shou*);⁷ and encouraged imports of foreign capital and technology (*dui*

⁶ "Dui Beijing, Jinan, Qingdao, Shanghai Fangzhi Hangye Tuixing Jingjizerenzhi De Diaocha" [Investigation on the implementation of financial responsibility system in the textile industries of Beijing, Jinan, Qingdao and Shanghai]. *Almanac of China's Textile Industry* 1982: 138–142.

⁷ "Fangzhi Gongyebu Guanyu Guanche 'Zhonggong Zhongyang Guanyu Jingji Tizhi Gaige De Jueding' De Yijian" [Opinions of the Ministry of Textile Industry on the Implementation of the "Decision of the Central Committee of the Communist Party of China on Economic System Reform"]. *Almanac of China's Textile Industry* 1984–1985: 197–199.

wai kai fang).⁸ In addition, since other kinds of enterprises were still in their infancy, SOEs continued to dominate the apparel industry throughout the 1980s.

Township–village enterprises (TVEs) came after SOEs as the second wave of dominance in the apparel industry. Starting from 1978, the household production responsibility system (*lian chan cheng bao zhi*) changed the centralised, collective, and equalitarian rural agricultural production by contracting the land use rights with autonomies to households.⁹ The new system achieved 97% rural coverage by the end of 1983 and freed up large amounts of rural labour.¹⁰ Statistical analysis by Chang showed the adoption of new farming system was a core impetus of rural economic diversification into non-agricultural sectors (Chang, 1993). Farm households turned to the sector with higher marginal returns and an unlimited supply of labour – the TVEs.

TVEs are enterprises located in a township or village that are collectively owned by all the local citizens who set them up. In practice, however, TVEs are controlled by local governments as they are regarded as “representative” of the people (Song 1990; Gelb and Svejnar 1990; Weitzman and Xu 1994; Chang and Wang 1994). They need permission from the government for investment and operational decisions; hence, Song concluded that managers could not do much actual decision-making (Song 1990). Although some township governments delegated full

operational responsibilities to managers, they generally kept the power to appoint managers (Weitzman and Xu, 1994; Chang and Wang, 1994). However, since most TVEs began as small businesses with only a few dozen employees, they were still more flexible than SOEs, with fewer layers of decision-making, less investment of capital, and a higher ability to absorb a huge amount of labour.¹¹

Foreign-invested companies emerged as the third wave of dominant firms in the mid-1980s. FDI was legitimised in 1979 and initially opened to four cities in the early 1980s, 14 coastal cities in 1984, and further expanded to four coastal economic regions in 1985 (Han and Zhu, 2018). The state established an export-oriented policy and issued regulations on encouraging foreign investment in 1986.¹² It granted two types of foreign-invested enterprises—export-oriented enterprises (products were mainly used for export) and technology-importing enterprises (foreign investors provided advanced technologies)—with tax incentives and autonomy in export and corporate management.¹³ After 1992, the opening up of FDI with preferential policies was further extended to inland cities; thus, foreign-invested enterprises entered a period of rapid growth.¹⁴

⁸ “Yikao Jishu Jinbu, Nuli Kaichuang Fangzhi Gongye Xinjunian” [Rely on technological progress and strive to create a new situation in the textile industry]. *China Textile* 1984(11): 1–4.

⁹ “Dangqian Nongcun Jingji Zhengce De Ruogan Wenti” [Several problems of current economic policies of rural areas]. *China Agriculture Yearbook* 1983: 1–5.

¹⁰ “Nongcun Jiating Lianchan Chengbao Zerenzhi Fazhan Qingkuang” [The development of the household contract responsibility system in rural areas]. *China Rural Statistical Yearbook* 1989: 33.

¹¹ “Summary of 40 Years’ Development of New China’s Textile Industry Editorial Staff of Almanac of China’s Textile Industry”. *Almanac of China’s Textile Industry* 1988–1989: 6.

¹² “Fangzhi Gongye Sanzi Qiye Gaikuang” [Overview of the foreign-invested companies in the textile industry]. *Almanac of China’s Textile Industry*, 1986–1987: 26–27; “Zhongguo De Xiangzhen Fangzhi Gongye” [China’s township textile industry]. *Almanac of China’s Textile Industry* 1988–1989: 33–35.

¹³ “Guowuyuan Guanyu Guli Waishang Touzi De Guiding” [Provisions of the State Council on Encouraging Foreign Investment]. *Almanac of China’s Textile Industry* 1986–1987: 113–114.

¹⁴ “Duiwai Maoyi He Liyong Waimao” [Foreign trade and the use of foreign trade]. *Almanac of China’s Textile Industry* 1997–1999: 9–10; Han and Zhu, 2018.

Finally, private enterprises, which took up the leading role after the 2000s, started from the shareholding reform (*gu fen zhi gai ge*). In the mid-1980s, local governments experimented with some SOEs or collective firms in various industries to implement a shareholding system.¹⁵ The pilot firms generally contained state, collective, and private shares, and could raise funds from both internal employees and external enterprises. However, during this period, the nature of ownership remained unchanged because policies confined private shares to a small portion of the total. For example, Guangdong Province stipulated that individual shares could not exceed 30%.¹⁶ In 1992, the government fully liberalised the privatisation of enterprises and in 2004 further revised the Foreign Trade Law. Before this revision, only enterprises possessing foreign trade rights were eligible to apply for export licenses. Foreign-invested enterprises

inherently held this right, while most domestic TVEs did not. The new revision clarified that all firms were born with foreign trade rights, granting domestic enterprises the same rights in international trade as foreign-invested companies.¹⁷ This, together with the abolishment of the MFA in 2005, which lifted the quota restrictions on apparel export, led to the number of private companies booming.

In summary, the institutional changes over time provided legitimacy for the emergence of different firms. In the following section, we will explore how entrepreneurs took actions to seize the new opportunities to dominate the industry.

The transformation of dominant firms in the Chinese apparel industry

The transformation of the industrial structure was in line with the chronology of institutional changes. In the 1980s, SOEs still led the apparel industry. From the late 1980s, TVEs began to demonstrate scale advantages and assumed leadership positions. In 1987, TVEs already accounted for more than 88% of total apparel companies and employed more than 76% of the industry's workforce.¹⁸ Meanwhile, TVEs produced 1.9 billion pieces of clothing, which was more than half of the country's total apparel production.¹⁹ At the same time, the number of foreign-invested companies had

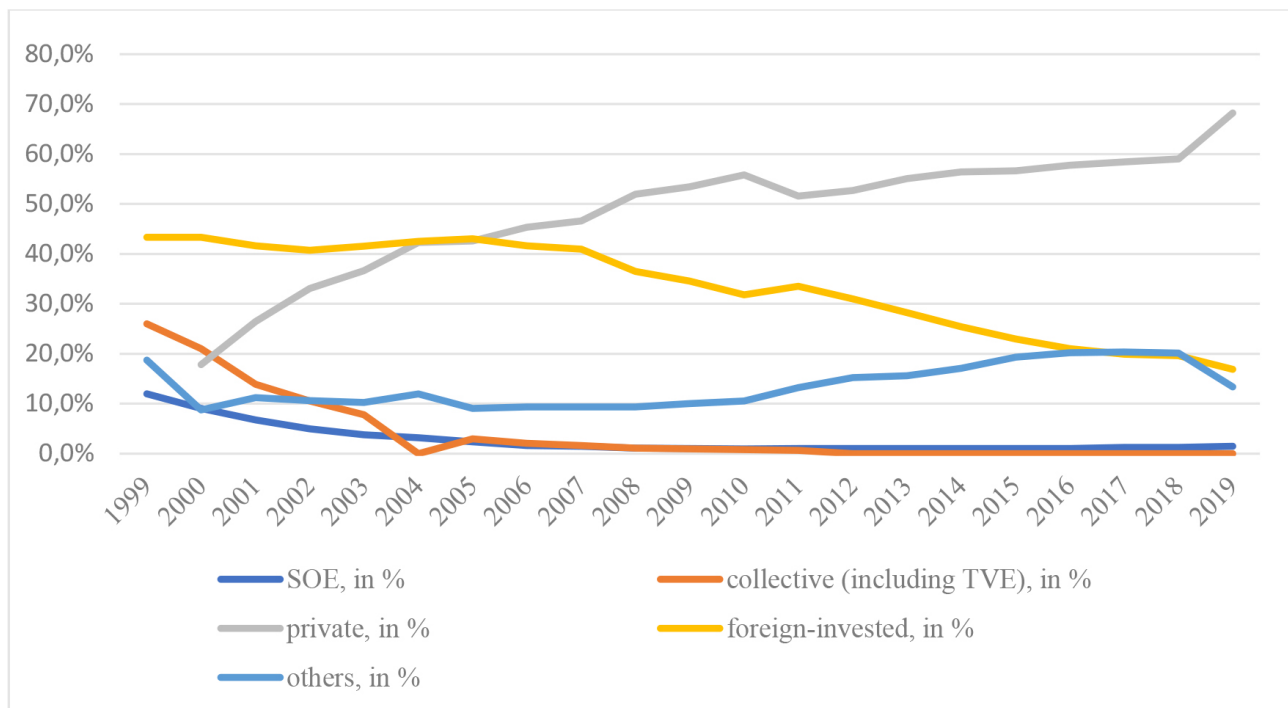
¹⁵ "Gufenzhi Keyi Chengwei Gongyouzhi De Yizhong Xin Xingshi – Dui Guangzhou Shi, Foshan Shi Si Chang Liang Dian Shixing Gufenzhi De Diaocha" [The shareholding system can become a new form of public ownership—An investigation into the trial implementation of the shareholding system in the fourth factory and two stores in Guangzhou and Foshan]. *Business Management Journal* 1986(12):16–19; "Guanyu Jiti Qiye Shixing Gufenzhi De Diaocha" [Investigation on the trial implementation of shareholding system in collective enterprises]. *Theory Journal* 1986(06):51–54; "Xiangzhen Qiye Gufenzhi Yanjiu" [Research on the Shareholding System of Town and Township Enterprises]. *Quarterly Journal of Shanghai Academy of Social Sciences* 1988(3):13–21; "Guanyu Wosheng Gufenzhi Shixing Qingkuang Ji Fazhan Yijian – Gufenzhi Diaocha Baogao" [On the trial implementation and development of the shareholding system in our province—the shareholding system survey report]. *The Journal of Humanities* 1992(1): 69–75.

¹⁶ "Gufenzhi Keyi Chengwei Gongyouzhi De Yizhong Xin Xingshi – Dui Guangzhou Shi, Foshan Shi Si Chang Liang Dian Shixing Gufenzhi De Diaocha" [The shareholding system can become a new form of public ownership—An investigation into the trial implementation of the shareholding system in the fourth factory and two stores in Guangzhou and Foshan]. *Business Management Journal* 1986(12):16–19.

¹⁷ "Xin 'Duiwai Maoyi Fa' Dui Woguo Mingying Waimao De Yingxiang" [The impact of the new "Foreign Trade Law" on China's private foreign trade]. *China High-tech Industry Herald* July 28, 2004.

¹⁸ "Guanyu Fuzhuang Gongye De Diaocha Baogao" [Report of apparel industry]. *Almanac of China's Textile Industry* 1988–1989: 285–288.

¹⁹ "Zhongguo De Xiangzhen Fangzhi Gongye" [China's township textile industry]. *Almanac of China's Textile Industry* 1988–1989: 33–35.

FIGURE 2. OWNERSHIP DISTRIBUTION OF CHINESE APPAREL COMPANIES, 1999–2019

Source: *China Statistical Yearbook 2000–2020*

Note: (1). Data of ownership distribution was unavailable prior to 1999. (2). Private companies were included in others (%) in 1999.

grown significantly from 46 in 1986 to 339 in 1988.²⁰ In 1994, these firms accounted for 27.8% of total apparel exports.²¹ As shown in Figure 2, by the end of the 20th century, foreign-invested and TVEs accounted for 43% and 26% of all apparel companies, respectively. This situation has changed radically since entering the 21st century. The explosion of private enterprises has made it the dominant player since 2006, accounting for more than 68% of all apparel enterprises in 2019. This section will focus on these dynamics and explore the ownership transitions explicitly.

The loss of dominance of SOEs

Zhao argued that although the purpose of reform was to transform SOEs into autonomous self-financed operations, it was not properly implemented in practice due to ineffective mechanisms, leaving SOEs with little strength and resilience in the face of market competition (Zhao, 2013). A report by the Ministry of Textile Industry of China in 1992 highlighted that since the government had not extricated itself from the management of SOEs, enterprises lacked control over operational decisions and personnel appointments, and the authority of managers could not be guaranteed.²² In terms

²⁰ “Fangzhi Gongye Sanzi Qiye Gaikuang” [Overview of the foreign-invested companies in the textile industry]. *Almanac of China’s Textile Industry 1986–1987*: 26–27; “Zhongguo De Xiangzhen Fangzhi Gongye” [China’s township textile industry]. *Almanac of China’s Textile Industry 1988–1989*: 33–35.

²¹ “Fuzhuang” [Overview of apparel industry]. *Almanac of China’s Textile Industry 1996*: 15–17.

²² “Zhuanhuan Jizhi, Shenhua Gaige, Zengqiang Guoying Fangzhi Qiye Huoli” [Transform the mechanism, deepen reforms, and enhance the vitality of state-owned textile enterprises]. *Almanac of China’s Textile Industry 1992*: 157–159.18 “Guanyu Fuzhuang Gongye De Diaocha Baogao” [Report of apparel industry]. *Almanac of China’s Textile Industry 1988–1989*: 285–288.

of production, enterprises were encouraged to sign agreements with the government to contract a certain amount of output or profit. However, the contracted amount could not always be completed due to continuous changes in the market and within enterprises. Less than 10% of the total profits, after the amounts that were to be handed to the government, were retained by the companies.²³ Therefore, it was difficult for SOEs to be independent and self-sufficient, and they began to suffer large-scale losses in the late 1980s. In 1989, the output value of SOEs in textile and apparel decreased by 1.4% over the previous year and the percentage of SOEs under deficit accounted for 12% of all textile and apparel firms, increasing to 44% in 1991.²⁴

As shown in Table 1, in 1988 the major apparel companies were all SOEs. However, none of these companies were still on the list by 1996. Factories named by a number were exclusively producing military supplies before the 1980s. Following then-leader Deng Xiaoping's "Great Disarmament" policy (*bai wan da cai jun*) in 1985, military production tasks were drastically scaled back, and the production plans fell far short of the capacity of these enterprises. For example, 3506 Factory's production plans were reduced by 30% immediately after the implementation, and that

of the 3507 Factory only reached 60%.²⁵ These enterprises began to diversify into producing civilian products, mostly uniforms for government and SOE employees, and to engage in exports.²⁶ In terms of financial performance, the transformation was modest due to limited clients and the state-owned nature of military enterprises. The 3504 Factory continued to be in deficit at the end of 1997 and only became profitable in the 2000s; the 3501 Factory gradually exited the apparel industry after 2000 and concentrated on real estate.²⁷ Today, the government retains ownership of these firms, the bulk of which continue to

²³ *ibid.*

²⁴ "1989 Niandu Guoying Fangzhi Gongye Jingji Xiaoyi Fenxi" [Analysis of economic conditions of state-owned textile industry]. *Almanac of China's Textile Industry* 1990: 39–41; "Xiangzhen Fangzhi Gongye Gaikuan" [Overview of township textile industry]. *Almanac of China's Textile Industry*, 1990: 43–44; "Zhuanhuan Jizhi, Shenhua Gaige, Zengqiaing Guoying Fangzhi Qiye Huoli" [Transform the mechanism, deepen reforms, and enhance the vitality of state-owned textile enterprises]. *Almanac of China's Textile Industry* 1992: 157–159. The data of enterprises under deficit in 1992 included state-owned enterprises and collective enterprises (excluding township enterprises).

²⁵ "Junxu Qiye Jianshe De Lishixing Biange – Sanwulingliu Gongchang Zhuangui Bianxing Diaocha" [The historical change in the construction of munitions enterprises—An investigation on the transformation and transformation of the 3506 Factory]. *Military Economic Research* 1987(4): 50–53; "Zhongguo Renmin Jiefangjun Di Sanwulingqi Gongchang Jianjie" [Introduction to the 3507 Factory of the Chinese People's Liberation Army]. *China Economic & Trade Herald* 1990(8):22.

²⁶ "Daxing Beifu Shengchan Qiye – Sanwulinger Gongchang" [Large-scale quilt printing and dyeing joint production enterprise-3502 Factory]. *Hebei Economic Yearbook*, 1995: 383–384; "Junxu Qiye Jianshe De Lishixing Biange – Sanwulingliu Gongchang Zhuangui Bianxing Diaocha" [The historical change in the construction of munitions enterprises—An investigation on the transformation and transformation of the 3506 Factory]. *Military Economic Research* 1987(4):50–53; "Zhongguo Renmin Jiefangjun Di Sanwulingsan Gongchang Jianjie" [Introduction to the 3503 Factory of the Chinese People's Liberation Army]. *Jiangsu Statistics*, 1997(12):32; "Zhongguo Renmin Jiefangjun Di Sanwulingqi Gongchang Jianjie" [Introduction to the 3507 Factory of the Chinese People's Liberation Army]. *China Economic & Trade Herald* 1990(8):22; "Zhongguo Renmin Jiefangjun Di Sanwulingba Gongchang" [The 3508 Factory of the Chinese People's Liberation Army]. *Chengdu Yearbook* 1987:62.

²⁷ Shinian Mo Yijian – Ji Changchun Jihua Sanwulingsi Zhiyezhuan Youxian Gongsongsi Dongshizhang Li Shuping" [Sharpening a Sword in Ten Years—Remembering Li Shuping, Chairman of Changchun Jihua 3504 Professional Wear Co., Ltd.]. *Jilin People's Congress*, 2010(4):43; "Introduction of 3501 Factory on official website", accessed April 4, 2024, <http://www.bj3501.cn/3501/gsgk/gsjj/index.shtml>.

TABLE 1. OWNERSHIP OF THE 10 LARGEST APPAREL COMPANIES IN TERM OF SALES IN 1988, 1996, 2006, 2016

	Enterprise	Ownership in statistical year	Ownership at establishment
1988			
1	Jiangxi Gongqing Down Factory	SOE	SOE (1970)
2	Shanghai Down Factory	SOE	SOE (1950)
3	3502 Factory	SOE	SOE (1928)
4	3506 Factory	SOE	SOE (1949)
5	3503 Factory	SOE	SOE (1940)
6	Great Wall Company	SOE	SOE (1952)
7	3507 Factory	SOE	SOE (1951)
8	3501 Factory	SOE	SOE (1912)
9	3508 Factory	SOE	SOE (1937)
10	3504 Factory	SOE	SOE (1951)
1996			
1	Shanghai Garment Group	SOE	Local government (1950)
2	Mozhihua Industry Group	Sino-foreign JV	TVE (1979)
3	Shanshan Group	mixed	SOE (1989)
4	Hongdou Group	mixed	TVE (1982)
5	Youngor Group	mixed	TVE (1979)
6	Shengle Group	mixed	TVE (1953)
7	Shanghai Conch Group	SOE	SOE (1970s)
8	Mailyard Group	Sino-foreign JV	Sino-foreign JV (1985)
9	Dayang Group	mixed	TVE (1979)
10	Shanghai Kaikai	SOE	private (1936)
2006			
1	Youngor Group	private	TVE (1979)
2	Hongdou Group	private	TVE (1982)
3	Heilan Group	private	TVE (1988)
4	Bosideng	private	TVE (1976)
5	Shanshan Group	private	SOE (1989)
6	Jifa Group	private	TVE (1955)
7	Red Collar Group	private	private (1995)
8	Judger Group	private	private (1996)
9	Xinlang Sinoer Group	private	private (1993)
10	Seven Brand Group	private	individual (1979)
2016			
1	Heilan Group	private	TVE (1988)
2	Youngor Group	private	TVE (1979)
3	Hongdou Group	private	TVE (1982)
4	Shanshan Group	Sino-foreign JV	SOE (1989)
5	Bosideng	Sino-foreign JV	TVE (1976)
6	Shandong Ruyi	Sino-foreign JV	SOE (1972)
7	Peacebird Group	private	individual (1989)
8	Weixing Group	private	TVE (1976)
9	Ballon Group	private	private (1991)
10	Semir	private	private (1996)

Source: *Management World* 1989(06); *Beijing Textile* 1997 (03), 57–59; China National Garment Association published statistics, accessed October 14th, 2021:

<http://www.cnga.org.cn/html/zx/hyxx/2007/0426/1685.html> (2006);

<http://www.cnga.org.cn/html/xiehuigonggao/2017/0718/44756.html> (2016). Ownership was established by the authors on the basis of yearbooks, newspaper and magazines mentioned in the reference list.

manufacture military products and uniforms for public officials rather than the mass market.

The situation of the Great Wall Company was somewhat different from the above-mentioned military factories. It developed from the state-owned Beijing No. 3 Garment Factory, which manufactured cotton clothing.²⁸ Confronted with unmarketable products, the director Zhang Jieshi decided to convert to manufacturing trench coats in 1982, an area that was novel in China at the time, with only one company in Shanghai.²⁹ The company renamed to the Great Wall Company after launching the iconic “Great Wall” trench coat, with 75% exported initially. When the product gained popularity locally, the company increased production for the domestic market through cooperation with 14 garment factories, and the export ratio fell to 55%.³⁰ However, the company ran into trouble in the late 1990s in the face of a growing number of competitors and was eventually acquired by a private enterprise in 2004.³¹

Similarly, the Gongqing Down Factory developed from a state-owned farm. It began to produce down clothing for export in 1972 and reached a domestic market share of over 30% in the 1980s.³² Since the late 1990s, the company struggled to keep up and its domestic market share dropped to only 2% in 2002. In

2011, the local government initiated a first reorganisation by forming a JV with a private enterprise, Veken Holding Group. In 2020, after a second restructuring, the private Bochen Investment Company purchased the company in its entirety.³³

In short, these SOEs either exited the mass market or were privatised after their loss of market dominance.

From TVEs to private enterprises

TVEs were the first to rise in prominence after the decline of SOEs in the 1990s. Their development was characterised by two typical stages: economic unification in the 1980s and privatisation in the 1990s. To centralise the scattered textile and apparel industry and increase productivity, the state proposed to facilitate voluntary unifications of enterprises in 1980. This economic unification (*jing ji lian he*) could be either close-knit conglomerates through mergers and acquisitions, JVs, or loose contractual production partnerships.³⁴ Later in 1986, the government issued more detailed regulations with favourable conditions as incentives, such as tax exemptions.³⁵ A report by the Ministry of Agriculture and the Ministry of Textile Industry identified four main ways for TVEs to achieve economic unifications that were empirically proven among the major apparel firms.³⁶

²⁸ “Fengyu Yuanqu” [Fengyu is gone]. *China Fashion* 2017 117(10):54–55.

²⁹ “Zai Gaige Zhong Qianjin De Changcheng Fengyuyi Gongsi” [The Great Wall Wind and Raincoat Company, which is advancing in reform]. *China Industry and Commerce* 1988(2):13–15.

³⁰ “Qianjin Zhong De Beijing Changcheng Fengyuyi Gongsi” [Beijing Great Wall Company in Progress]. *Democracy Monthly* 1989(Z1):63.

³¹ “Fengyu Yuanqu” [Fengyu is gone]. *China Fashion* 2017 117(10):54–55.

³² “Yaya Chuang Shichang” [“Yaya” is entering the market]. *China State Farm* 1992(11):8.

³³ “Yaya De Wennuan” [The warmth of “Yaya”]. *Jiangxi Daily* August 2, 2022.

³⁴ “Guowuyuan Guanyu Tuidong Jingji Lianhe De Zanzing Guiding” [Interim Provisions of the State Council on Promoting Economic Cooperation]. *Almanac of China’s Textile Industry* 1982: 54.

³⁵ “Guowuyuan Guanyu Jinyibu Tuidong HJengxiang Jingji Lianhe Ruogan Wenti De Guiding” [Provisions of the State Council on Several Issues Concerning Further Promoting Horizontal Economic Cooperation]. *Almanac of China’s Textile Industry* 1986–1987: 88–90.

³⁶ “Zhongguo De Xiangzhen Fangzhi Gongye” [China’s township textile industry]. *Almanac of China’s Textile Industry* 1988–1989: 33–35.

The first was the collaboration with SOEs. Large SOEs were encouraged to cooperate with several small TVEs, with the divisions based on their areas of expertise. Ningbo Qingchun Garment Factory, the predecessor of Youngor, was a small TVE that was manufacturing shirts. In the early 1980s, it struggled with inferior products and flat sales. General Manager Li Rucheng decided to collaborate with large factories producing superior products. In 1983, he secured a cooperation agreement with the state-owned Shanghai Kaikai, which was renowned for “Swan” shirts. Qingchun Garment Factory produced shirts for this company, which offered technology, information, and trademarks in return. Meanwhile, it had developed its own distribution channels around the country using the “Kaikai” label. Three years later, Li Rucheng terminated the collaboration due to the high trademark royalties (12.5%) and launched its first branded product, the “Beilungang” shirt, which quickly gained popularity.³⁷

Second, since 1986, textile and apparel companies were encouraged to transform into export-oriented manufacturers to follow the government’s new policy.³⁸ By 1987, one-third of the manufacturing conglomerates, comprised of SOEs or TVEs, in the textile and apparel industry engaged in exports.³⁹ However, except for a few large companies that had the right to export directly, most of these firms were

agented by state-owned foreign trade corporations. Thus, some chose to ally with foreign trade companies to build export-oriented factories. Pinghu Xincang No.1 Garment Factory, the predecessor of Mozhihua Industry Group, is an excellent example. In the early 1980s, it was on the verge of bankruptcy with only a dozen employees. Consequently, the local government put it out to tender in public and required a very low hand-in profit each year. Li Qinfu, an apprentice in a hardware factory at the time, contracted the factory through bidding in 1983.⁴⁰ In 1988, he collaborated with Beiqiao Garment Factory of Shanghai Garment Import and Export Corporation, and all the products were exported to the Middle East. The factory began to make profits and once reached a staff size of 600. However, due to the outbreak of the Gulf War in 1990, the factory was forced to shut down, and Li turned to a Sino-foreign JV with Matsuoka Corporation of Japan.⁴¹

The third type was cooperating with research and development (R&D) institutions and colleges to promote technological upgrades. For instance, in the early 1980s, Beijing Xicheng Garment Research Institute entered into technology transfer agreements with three township apparel factories and was responsible for technical training. It enabled the Liaoning Lingyuan Garment Factory to improve productivity and receive additional investment from the local government and the Beijing Pinggu Garment Factory was able to meet technical standards and became a designated factory producing apparel for export entrusted by a foreign trade corporation.⁴²

³⁷ “Yageer, Qingchun De Shiye” [Youngor, the career of youth]. *Foreign Investment in China* 1995(4): 45–46; “Zizhu Chuangye Qiye Changqing De Biyou Zhilu” [The Only Way to Evergreen Independent Innovation Enterprises]. *Private Economic News* December 3, 2007; *Su, Yageer: Feifan Jueqi*, 14–22.

³⁸ “Zhuazhu Youli Shiji, Fazhan Fangzhipin Chukou” [Seize the opportunity to develop textile exports]. *China Textile* 1986(12): 2–4.

³⁹ “Zhongguo Fangzhi Gongye Fazhanshi Shang Nongzhong De Yibi” [A strong stroke in the development history of China’s textile industry]. *China Textile* 1988(3): 9–12.

⁴⁰ “Doushi Li Qinfu” [Fighter Li Qinfu]. *CEOCIO China* 2008 (13):90–93.

⁴¹ Mozhihua Industry Group Co., Ltd. *Almanac of China’s Textile Industry* 1996: 119–121.

⁴² “Fuzhuang Hangye Jishu Shang De Hengxiang Lianhe Dayou Kewei” [The horizontal integration of technology in the garment industry is promising]. *Market Modernization* 1986(8):15.

The fourth type was the vertical and horizontal integration of enterprises to form a complete production chain. For example, the township Gangxia Knitting Factory, the predecessor of Hongdou Group, purchased equipment and merged a large number of small textile factories with bank loans from 1983.⁴³ In 1992, Hongdou was officially established based on the consolidation of more than 50 factories and companies.⁴⁴ Likewise, mergers also occurred between SOEs and collective enterprises. For example, the conglomerate Shanghai Conch Group was gradually formed after 1993 through the merger of a dozen SOEs and collective enterprises, including Shanghai No.2 Shirt Factory (SOE), Shanghai No.3. Shirt Factory (SOE), and Shanghai Jinling Hat Factory (collective).⁴⁵

Beginning in 1992, the government established a market economy orientation and fully liberalised enterprise privatisation. It became a common trend for township governments to progressively give up control and shareholding to the managers,⁴⁶ with Hongdou and Youngor being two examples. In 1983, Zhou Yaoting, deputy secretary of the Party branch of Dangshang Village, Gangxia Town, was

appointed as the general manager of the township Gangxia Knitting Factory, the predecessor of Hongdou Group, which was then on the verge of bankruptcy.⁴⁷ In 1993, Zhou negotiated with the township government to adopt a shareholding system in Hongdou. The government agreed to cut its participation from 51% to 30%, and the company's trade union committee became the largest shareholder. In the following years, Hongdou continued to increase capital and shares, while the township government made no additional investment. In 2001, the company was listed on the Shanghai Stock Exchange (SSE). At this time, the government owned only 10% of the company, which was ultimately transferred to Zhou Yaoting in 2002.⁴⁸ One year later, collective shares held by the trade union committee were all transferred to individuals, among which Zhou's family held more than 80%, making Hongdou a private company.⁴⁹ Through the privatisation, Zhou Yaoting shifted from a former government official to the entrepreneur of a private apparel company. Today, Zhou and his son still maintain control over the Hongdou Group.

The privatisation of Youngor Group was similar to Hongdou. Since 1988, Li Rucheng, general manager of the township Qingchun Garment Factory (predecessor of Younger), had made several unsuccessful attempts to weaken the government's control through shareholding reform. In 1993, Li and the township government reached an agreement to establish the Youngor Group, in which the government received 25% of the shares. Beyond that, Qingchun Garment Factory became the largest

⁴³ "Wuxi Xian: Zujian Xiangzhen Qiye Jituan De Shijian Ji Sikao" [Wuxi: Practice and Thinking of Forming Township Enterprise Group]. *Group Economy* 1992(12):36-38; Yi, Cunxin Rudan, 47-48.

⁴⁴ "Hongdou Sheng Nanguo - Ji Hongdou Jituan Zong Jingli Zhou Yaoting" ["Hongdou" Born in the South -- Zhou Yaoting, General Manager of Hongdou Group]. *China Entrepreneur* 1994(3): 19-24.

⁴⁵ "Hailuo Pinpai Jueqi De Aomi" [The mystery of the rise of the "Conch" brand]. *Shanghai Economic Forum* 1997(6):28-29; "Shanghai Jinling Maochang Shi Zenyang Zouchu Digu De" [How did Shanghai Jinling Hat Factory get out of the economic downturn]. *Shanghai Enterprise* 1988(4): 41-42.

⁴⁶ "Xiangzhen Jitiqiye Zhong Jingyingzhe Chidagu: Tezheng Ji Yanjiu" [Operators holding large shares in township collective enterprises: characteristics and explanations]. *Economic Research* 1999(4):47-53.

⁴⁷ Yi, *Cunxin Rudan*, 287.

⁴⁸ Yi, *Cunxin Rudan*, 299; "1994·Zhou Yaoting: Dameng Xianjue" [1994·Zhou Yaoting: The Great Dream Sense]. *China Entrepreneur* 2005(24):186-188.

⁴⁹ "Hongdou Gufen Zhaidiao Hongmaozi" [Hongdou takes off the "red hat"]. *China Securities Daily* December 4, 2003.

shareholder of Youngor, while Li Rucheng indirectly owned only 5.6% of the enterprise. In 1998, Youngor was listed on the SSE. Li and his family gradually gained control over the collective shares through several equity adjustments in the 2000s, and Qingchun Garment Factory was eventually purchased by Li Rucheng.⁵⁰

To provide a broad overview, by 1996, all of the 10 largest apparel companies had been converted to joint-stock corporations (see Table 1). TVEs had been transformed from collective to mixed ownership, comprising both collective and private shares. By 2006, all of them were privatised. Except for Jifa, all these largest TVEs went public between the late 1990s and early 2000s, such as Youngor (1998), Shengle (1999), and Heilan (2000). Moreover, former directors of these TVEs, many of whom used to be public officials, basically retained control with their families throughout privatisation, thereby becoming entrepreneurs of family businesses.

The emergence of foreign-invested firms

Foreign-invested enterprises grew substantially from the mid-1980s with investors mostly from Hong Kong, Taiwan, Macau, Japan and the United States. Hong Kong came out on top, accounting for about 70% of total investment volume and value, followed by Taiwan with around 10%.⁵¹ A significant proportion of these foreign investors, particularly those who

established the first JVs in China in the 1980s, were refugees who fled the mainland in the 1940s and settled nearby in places such as Hong Kong and Taiwan (Broggi, 2016, 2024). According to the regulations in 1986, foreign-invested enterprises had autonomy in exports. The government even set certain requirements on the export ratio of foreign-invested enterprises (Min and Li, 1989). Therefore, establishing Sino-foreign JVs became a critical approach to exporting for domestic enterprises, especially TVEs.

Table 1 shows that two of the 10 largest apparel companies in 1996 were Sino-foreign JVs, namely Mozhihua and Mailyard. The Chinese partners of these two companies were TVE and SOE respectively. In 1990, the export trade of township Pinghu Xincang No.1 Garment Factory, the predecessor of Mozhihua, was forced to stop due to the Gulf War, as discussed in Section 4.2. The factory's general manager, Li Qinfu, visited two Japanese businessmen conducting research in Pinghu city. He proposed to win their orders at a reduced price and form a JV with them to obtain preferential treatment for foreign-invested companies from the government. In the second year, Mozhihua was jointly established by Pinghu Xincang No.1 Garment Factory and Matsuoka Corporation of Japan. According to their agreement, Matsuoka provided all raw materials and accessories, and finished products were, in turn, exported to Japan.

⁵⁰ "Yageer Chuangjian Xiandai Qiye Zhidu" [Youngor creates a modern enterprise system]. *China Township Enterprise News* July 20, 2000; "Qingchun Konggu Jiangcheng Yageer Dagudong" [Youth Holdings will become a major shareholder of Youngor]. *China Securities Journal* March 7, 2006; "Yageer Kongzhiquan Pintu" [The Control Puzzle of Youngor]. *21st Century Business Herald* March 3, 2006; "Li Rucheng Shanzhuantengnuo Yageer Guquan" [Li Rucheng swivels and transfers Youngor's equity]. *Securities Times* June 23, 2009; Su, *Yageer: Feifan Jueqi*, 22–45.

⁵¹ "Fangzhi Gongye Sanzi Qiye Gaikuang" [Overview of

the foreign-invested companies in the textile industry]. *Almanac of China's Textile Industry 1986–1987*: 26–27; "Fangzhi Gongye Waishang Touzi De Qushi Fenxi" [Analysis of the trend of foreign investment in textile industry]. *China Textile Industry Development Report 2001–2002*: 224–226.

Within two years, Mozhihua formed over a dozen export-oriented JVs with Japanese and Korean enterprises. By 1995, it produced 20% of all uniforms in the Japanese market.⁵²

Similarly, Mailyard was also set up to process supplied materials. In 1984, the state-owned Huangshi No.1 Sheet Factory was forced to switch its main business due to poor profitability. One year later, Mailyard was co-founded by the sheet factory and a Taiwanese businessman (with a 25% share). However, the new corporation suffered significant financial losses due to poor management. Luo Riyan, director of the municipal Textile Bureau's executive office, was appointed as the new general manager of Mailyard in this situation. In 1987, Luo entered into a suit processing agreement with the Japanese company Santai Group, while the Taiwanese side transferred its shares to Santai. The company soon expanded their contracts with other Japanese companies, including Daimaru and Mitsubishi, and established dozens of Sino-foreign JVs in the following years. Mailyard prioritised exports during this period, with around 80% of finished products shipped to Japan.⁵³

In addition to the above-mentioned Sino-foreign JVs, it was also common for TVEs to set up subsidiaries with foreign investors to engage in exports. TVEs were tightly restricted in export since only a few large-scale SOEs had permission to export independently, and SOEs

were prioritised in the allocation of export quotas. For example, since the mid-1980s, the Jifa Group successively established six Sino-foreign subsidiaries with Japanese enterprises, including Itochu, Tomen, and Nihon Menka, to undertake processing and compensation trade.⁵⁴

In addition to serving as a vehicle for exports, the Sino-foreign JVs also played an important role in bridging the technological gap between China and the world's leading apparel manufacturers at the time, by attracting capital, advanced equipment and technological experts from foreign sides (Zhang and Donzé 2023).

The dominance of Chinese private firms

Private companies have progressively become dominant in the apparel industry: their share grew from 42.6% of all firms in 2005 to 68.2% in 2019 (see Figure 2). In the early 2000s, state capital had virtually eroded its position in the apparel industry, accounting for less than 3% in 2003.⁵⁵ Despite of the institutional evolutions favouring private firms discussed in Section 3, the reduction of preferential treatment on foreign investments also contributed to this transformation. For example, although the government liberalised FDI by eliminating regional and equity share restrictions in 2004, the 2008 revision of the Income Tax Law exempted foreign-invested enterprises from tax initiatives.⁵⁶ Combined with rising domestic labour costs, the proportion of foreign capital in

⁵² Mozhihua Industry Group Co., Ltd. Almanac of China's Textile Industry, 1996: 119–121; “Doushi Li Qinfu” [Fighter Li Qinfu]. *CEOCIO China*, 2008 (13):90–93; “Li Qinfu: ‘Buwuzhengye’ De Shenmi Fuhao” [Li Qinfu: The Mysterious Rich People Who Don't Do Their Jobs]. *Money* 2008(9):46–48.

⁵³ “Dongfang De Meili Yu Kunhuo – Ji Meiyerya Fushi Youxian Gongsi” [The charm and confusion of the East—Hubei Mailyard]. *Journal of International Economic Cooperation* 1990(8):25–27, 64; “Mianxiang Shijie Lailiao Jiagong” [Developing processing with supplied materials to the world]. *Journal of International Economic Cooperation* 1988(6):14–53; “Luo Riyan De Jiyu

Guan He Meiyerya De Fazhan” [Luo Riyan's View of Opportunity and Mailyard's Development]. *China Textile* 1995(9):17–20; “Luo Riyan Yu Meiyerya Jituan” [Luo Riyan and Mailyard Group]. *Policy* 1995(4): 20–23.

⁵⁴ “Jifa Zhihun Chen Yula” [“The Soul of Jifa” Chen Yulan]. *China Township Enterprise* 2000(1):30–32.

⁵⁵ “Dali Tuijin Zhongguo Fuzhuang Mingpai Zhanlve” [Vigorously promote China's strategy of famous clothing brand]. *China Textile* 2004(05): 48–51.

⁵⁶ “Fuzhuang Ye” [Apparel industry]. *China Textile Industry Development Report* 2005–2006: 87–96.

annual incremental investment in the apparel industry has been declining year by year, falling from 30.9% in 2005 to 10.2% in 2011.⁵⁷ Correspondingly, the share of foreign-invested companies has steadily reduced since the mid-2000s, dropping from a peak of 43% in 2005 to less than 17% in 2019. In fact, global investment started to shift gradually to lower-cost nations such as Vietnam, Bangladesh, and Indonesia.⁵⁸

As shown in Table 1, the largest apparel companies in 2006 and 2016 were mostly privately owned. More than half of them came from the privatisation of former TVEs, such as Youngor, Heilan, and Hongdou. They have developed over a relatively long period and have already achieved scale advantage since the early 1990s. By contrast, other private companies were newcomers that were founded in the 1990s. Additionally, Seven and Peacebird followed a specific path, starting as individual workshops and then shifting to private enterprises in the 1990s without any stage of collective ownership.

Unlike private firms with TVE origins, founders of these born-private companies were no longer public officials but mostly individual entrepreneurs. For instance, Zhang Daili, president of Red Collar, began his career in the individual apparel wholesale business in the early 1980s and built his own factory a few years later. In 1995, he set up Red Collar, a men's suit manufacturer, with his savings and borrowed funds.⁵⁹ Similarly, Wang Guibo,

president of Xinlang Sinoer, borrowed money in 1992 to register a small firm that acted as a broker to provide sewing accessories for apparel factories with four employees. One year later, he switched to manufacturing men's suits. After renting a factory and hiring more workers, Wang established his own company in 1993 and launched the "Xinlang" brand in 1995.⁶⁰ Slightly different, Semir founder Qiu Guanghe used to be a public official in the 1970s, following his discharge from the army. He resigned in 1981 and started as an individual businessman retailing household appliance. In the 1990s, he switched to apparel after being inspired by the trend of casual wear in Hong Kong. In 1996, Semir was founded without factories due to a lack of capital, and production was outsourced to original equipment manufacturers (OEMs).⁶¹

Compared with born-TVEs, these born-private enterprises show less likelihood to go public. Four went public after the 2010s, including Xinlang Sinoer (2010), Semir (2011), Peacebird (2017), and Red Collar (2020), while the remaining three have remained unlisted.⁶² Except for Judger Group, which was acquired by Ruyi, all these private firms have kept independence under family control.

⁵⁷ "Fuzhuang Ye" [Apparel industry]. *China Textile Industry Development Report, 2006–2007*: 78–100; "Fuzhuang Ye" [Apparel industry]. *China Textile Industry Development Report, 2011–2012*: 78–87.

⁵⁸ "Fuzhuang Ye" [Apparel industry]. *China Textile Industry Development Report 2015–2016*: 70–80.

⁵⁹ "Zhang Daili De Moming Kunjing" [The inexplicable dilemma of Zhang Daili]. *China Entrepreneur* 2000(11):37–38.

⁶⁰ "Shichang Wuxin Zheng 'Lingxiu' Minjian Youyi Zuo 'Xinlang'" [The market is not interested in competing for the "leader" and the public are interested in being the "groom"]. *China Township Enterprise News* June 11, 2004; "Xinlang Xinuer: Shizai Bense Zhujiu Minzu Pinpai" [Xinlang Sinoer: the real nature of casting national brands]. *China Textile News* January 1, 2006.

⁶¹ "Qiu Guanghe: Determined to be the best casual wear in the world—Qiu Guanghe, winner of the May 1st Labor Medal and Chairman of Semir" [Qiu Guanghe: Lizhi Zuo Shijie Zuihao De Xiuxianfu – Ji Wuyi Laodong Jiangzhang Huodezhe, Senma Dongshizhang Qiu Guanghe]. *Yangtze Delta* 2006(5):70–72.

⁶² Qichacha, an enterprise information query platform of China, accessed April 15, 2022, <https://www.qcc.com>.

Conclusion

Since the 1980s, the Chinese apparel industry has experienced rapid growth along with a tremendous structural transformation. The dominant apparel companies in the industry have seen continuous changes in the last four decades. SOEs dominated the apparel industry for three decades after the socialist transformation in the early 1950s but began to lose the leadership in the late 1980s due to bureaucratic inefficiencies. TVEs then took the lead in the 1990s as a result of resource integration and technological upgrading. All the largest TVEs underwent ownership transitions from collective to mixed ownership before being privatised in the late 1990s. Meanwhile, due to the legitimisation of FDI in China, foreign-invested companies took up an important share of the apparel industry from the late 1980s. Under quota restrictions at the time, TVEs typically established JVs with FDI as a vehicle to obtain quota and engage in export. After the mid-2000s, private companies took over the dominance in the industry and most of them resulted from changing strategies from the former leading TVEs and SOEs, while some newcomers also showed vigorous growth. In particular, the entrepreneurs have all achieved continuity of control over the companies during ownership transition, turning them into family businesses.

While we have illustrated the structural transformation of the Chinese apparel industry from state-controlled to private over the past forty years, it is not the only model of industrial development in the Chinese economy. Since the Maoist period in the 1950s, heavy industry has been given more emphasis than light industry (Kong, 2010). In the automobile industry, for example, the priority of development led to the emergence of the backbone SOEs in China, including FAW, SAIC, and BAIC. Since the

reform and opening up in the 1980s, JVs established by the backbone SOEs and global automobile companies such as Volkswagen and Toyota have dominated the market, accounting for two-third of passenger car sales in China by 2009 (Hu et al. 2014). Although encouraged to compete with the backbone SOEs, private car companies such as Geely and BYD are also subject to strict regulations and government directives (Jia-Zheng and Broggi 2023). Therefore, unlike the massive withdrawal of state capital from the apparel industry since the 2000s, the state has maintained tight control over some other industries, including the automobile, tobacco, and electrical industries (Fan and Hope 2013).

This paper provides an example of the development and transformation of a low value-added industry in China during the last four decades. It offers three main contributions to extant literature in business history. First, it has demonstrated that four types of dominant companies have emerged since the 1980s and exhibits these dynamics in relation to institutional changes. Despite some bottom-up gaming processes observed by other scholars, such as Frost, state regulation remained decisive in shaping the conditions under which the major apparel companies were able to develop (Frost 2023). Firms with different ownerships could only emerge publicly on a large scale in China if they were granted legitimacy. This led to the positive correlation between shifts in dominant firms and the chronology of institutional changes. While some studies, such as Shi, have analysed the changing nature of dominant firms in different periods using statistics, our study illustrates explicitly from the firm level why, how, and for what purposes firms with different ownerships came into being (Shi 2020). For example, foreign-invested companies emerged in abundance by serving as a conduit of exports for TVEs. For

numerous cases, we have highlighted some continuity in terms of the individual managers leading these firms, although their legal structure changed.

Second, this qualitative research supplements the literature on China's industrial ownership transformation with the actions of firms and entrepreneurs. Based on macroeconomic and qualitative data, scholars have demonstrated policy changes led directly to long-term, progressive system change and ownership transformation (Zhu 1999; Ma 2008; Chavance 2017; Jia-Zheng and Broggi 2023). However, the impact of institutional changes on industrial transformation does not occur naturally, and is instead implemented by decisions taken by entrepreneurs. The general managers of SOEs and TVEs—many of whom had previously served as public officials—retained control of the firms through privatisation with the advent of the market economy in 1992 and thus became independent entrepreneurs. In contrast, individual entrepreneurs without any government background became dominant in the born-private apparel companies after the 1990s. This largely corresponds with situations in many other industries, such as construction and home appliances (Fernández Pérez 2013). By clarifying these different backgrounds, we arrive at their disparities in corporate management and operational decisions. The former, having undergone a full cycle of industrial transformation from a planned economy, have largely conducted major adjustments to their firms to survive in the volatile institutional environment, such as drastic changes in main products and target clientele. The latter, as newcomers to the liberalised economy, were less affected by national policies and more concerned with profits and expansion, which was similar to the Western fast fashion companies. Therefore, we illustrate two contradictory backgrounds of

entrepreneurs and managerial models—policy-oriented and market-oriented—that coexisted in a coherent state-led reform.

Third, our paper demonstrates that even in a state-led transformation, entrepreneurs need to take advantage of the new opportunities brought by changing policies to dominate the industry. Through our qualitative study, we shed light on the entrepreneurial actions of different types of firms, rather than just on policies and the corresponding industrial changes they brought about. Even though Chinese SOEs were perceived to be tightly constrained by bureaucracy, as indicated by Zhao and Fernández Pérez, entrepreneurial decision-making was still the key to a firm's competitiveness (Zhao 2013; Fernández Pérez 2013). For example, Great Wall Company and Gongqing Down Factory, two of the largest SOEs in the 1980s, lost their leadership quickly in the 1990s due to a lack of transformative entrepreneurial actions taken in time to adapt to the withdrawal of state capital and intensification of market competition. In contrast, the CEO of Shanshan implemented a series of radical reforms, including privatisation, brandisation, outsourcing of production, and knowledge acquisitions through corporation with foreign companies, allowing the transformed-SOE to emerge and retain in the top rank among Chinese apparel companies over three decades (Zhang and Donzé 2023). Furthermore, corresponding to the quantitative research stating that entrepreneurial strategies in transitional Chinese economy prefer to hedge undiscovered risks through forming hybrid organisational forms and alliances, our paper provides multiple qualitative cases to elaborate, generalise, and categorise these specific decision-making actions (Nee 1992; Zhao and Aram 1995; Luo 2003; Hitt et al. 2004; Yang and Li 2008).

However, due to the broad range of companies involved, we lack in-depth research on entrepreneurship to demonstrate its instrumental role in the transformation of apparel industry. As an emerging economy under institutional transition, scholars have begun to focus on the distinctiveness of entrepreneurship in China (Huang et al. 2016). A future area of research for us will be to investigate the similarities and differences between Chinese and Western entrepreneurship in business history.

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