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or First-Tier Suppliers?  
Accounting for Varied Firm Trajectories in the  
Deindustrializing Korean Apparel Industry**

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**Transforming into Fashion Firms or First-Tier Suppliers?  
Accounting for Varied Firm Trajectories in the  
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Abstract

This paper compares across two groups of Korean garment firms' varied development and patterns of integration into the global economy in the de-industrializing Korean apparel industry. Although each group, both with histories as export suppliers, developed into fashion lead-firms or multi-country suppliers, current literature on firm upgrading provides little help in explaining the varied post-industrial trajectories of these firms. This paper bridges GVC/GPN literature with institutionalist literature to highlight the importance of differential market embeddedness and organizing logics in patterning how firms respond to changing global conditions.

**1. Introduction**

A significant change occurred to the organization of global production and trade over the past several decades. Disintegration of production, and integration through trade, gave rise to a new, complex production landscape in which firms, dispersed worldwide, participate in the production of single-commodity goods (Feenstra, 1998). At the core of these dynamics are the activities of firms situated primarily in Western economies that separated non-core and low-value-added functions and outsourced production to developing countries. In response, various supplier markets have appeared in developing countries for export production. Light industrialists in Asian NIEs such as Korea, Taiwan, Hong Kong, and Singapore were significant participants in this type of export-production (Amsden, 1989; Coe & Yeung, 2015; Feenstra & Hamilton, 2006; Gereffi, 1994, 1999).

From the late 1980s to the 1990s, political and economic circumstances, including pressures for liberalization, currency appreciation, inflation and wage increases, and rising competition from developing economies' manufacturers, affected the competitiveness of the NIEs' light manufacturing bases adversely. Although research originally suggested that upgrading supplier capacities and replacing the low-wage, low-skill assembly model would sustain the growth of NIE manufacturers (Gereffi, 1999), it is now clear that such capacity-building is insufficient to sustain light industries such as apparel as these operations migrated to lower-cost production bases that now host the bulk of the NIEs industrialists' production facilities (Hsing, 1999; Scott, 2006; Smith, 1996). Notwithstanding burgeoning literature on global garment production, insufficient attention has been paid to the post-industrial trajectories of apparel industries in the original NIEs. This is despite many initial export-producing firms becoming significant brand-name producers (OBMs) that now stand on the other side of the lead-firm and supplier nexus, or large contractors that, along with Western buyers, play crucial roles as 'co-leads' that coordinate supply chains and undertake related functions in design, production, and distribution (Applebaum, 2011; Azmeh & Nadvi, 2014; Gereffi, 1999). These dynamics forged new global links and patterns regarding how apparel industries in some NIEs are integrated into global and regional economies, with some even starting to gain influence as lead firms.

This paper examines the post-industrial transition of Korea's apparel industry from an export-producing supplier market to an apparel development, marketing, and retailing hub that garners increasing global recognition for its fashion operations. In the present context, two sets of successful Korean firms, with largely diverging post-industrial trajectories, are broadly identifiable. The first originated from the 1950s and 1960s as textile and garment manufacturers, and subsequently grew as part of a chaebol (i.e., a large, diversified business groups). By the 2000s, these firms grew into large, multi-brand-producing fashion lead firms

that are widely diversified with extensive vertical capabilities, similar to their counterparts in the electronics and automobile industries (e.g., Samsung, LG, and Hyundai). They are now the largest and most significant players in the Korean domestic ready-to-wear industry<sup>i</sup>, and are globally circulating products bearing their own brand names.

Contrarily, the second group has origins from Korea's export-production sector around 1970, consisting of focused garment producers that grew by forming dependent links with Western buyers. The most notable have become highly competent multi-country suppliers that deal with multiple big buyers, operating as part of relational value chains (Gereffi, Humphrey, & Sturgeon, 2005), with considerable tacit knowledge regarding essential manufacturing and related design and development operations. Although some entered branding, when they do, they usually commit a minor portion of their operations, without a firm forgoing their focus on export manufacturing. More often, bigger success, in rising importance of shorter lead-times and overcapacity in the global system since 2000, came from learning to operate as multi-country suppliers that also take on upstream functions of managing design, developing textiles and fabrics, and operating quality testing and logistics services for buyers.<sup>ii</sup>

How did these two groups diverge in their patterns of capacity-building, and what theoretical implication does such provide to current understanding of firm upgrading? This paper comparatively examines each group's trajectories to illustrate the varied mechanisms through which firms have restructured and integrated their activities in the changing global economy. The comparison illustrates that their varying trajectories stemmed not from differential successes and failures to upgrade into branding on the part of supplier firms, as upgrading literature implies, but from each group of firms relying on their differential market embeddedness to form patterned strategies and responses to changing market conditions. To adapt to changing global apparel production and distribution landscapes, successful firms

tapped disparate sets of resources and formulated different organizing logics that further separated their trajectories and manners of global integration.

Historically developed organizing logics (Biggart & Guillén, 1999) and firms' differential embeddedness within a segmented economy served as a basis for each group's organizational evolution. The first group grew embedded in a sphere, in which a small number of large and dominant firms coordinate activities internally and strive for whole-market domination, patterns that guided chaebol's growth (Biggart & Guillén, 1999; Hamilton & Biggart, 1988). The result is what Feenstra and Hamilton (2006) call a high-equilibrium model, comprised of few big winners, in which just a few chaebol firms dominate every segment of the Korean economy, including light and heavy industries, electronics, and financial services. Chaebol T&A (Textile and Apparel) subsidiaries, being part of these groups, moved gradually into marketing, production, and distribution of their own brands, integrating upstream processes of textile manufacturing and competing against other fashion OBMs.

In contrast, the second set of firms, with later starts, had limited market access and resources. Their initial growth in Korea's oligopolistic economy occurred despite exclusion from material and social conditions that enabled chaebol's expansion. These manufacturers instead established dependent ties with global buyers and used low cost labour to produce goods with readily available markets between 1970s and 1980s. After various crises led to declining domestic production, the firms turned into multi-country suppliers, and developed significant knowledge and capacity to co-lead production.

These varied empirical patterns lend themselves to two theoretical points. First, they demonstrate the relevance of institutionalist writings that explain varied patterns of network and hierarchy relationships within and across national and regional economies as situated organizational responses (Biggart & Guillén, 1999; Hamilton & Biggart, 1988; Whitley,

1992; Witt & Redding, 2013). Adjudicating the institutionalist view with studies of global production reveals the difficulty with the latter literature, which pays disproportionate attention to global links at the firm level when identifying conditions of supplier evolution and capacity-building (Gereffi, 1999; Humphrey & Schmitz, 2000; Tokatli, 2013) at the cost of overlooking how local embeddedness and organizing logics serve as bases for organizational strategies of groups of co-located firms. This is revealed most clearly in the case of the large chaebol fashion firms that used mechanisms external to their links to global buyers (e.g., joint ventures, licensing of operations, technology transfers, and a general process of learning by doing) to access necessary knowledge, while tapping state or internal capital market resources. Their multi-sectoral expansion (both in sectors with and without notable state support) has clearly been an extension of the logic of market domination, rather than realization as a supplier of the need to move up the chain upon interaction with buyers. Although GVC/GPN's transnational buyer-dependent pattern of resource acquisition figured more prominently in the second group's early capacity development, even for this group, significant learning opportunities derived outside these links.

Second, contrary to the implication that operations in OEM/ODM are less desirable than OBM since the latter allows higher value capture, I argue that the firms gradually immersed themselves in competitive spheres, guided by varied operational logics, and thus subjected to disparate sets of risks and logics concerning profit-making. This means it is insufficient to measure their relative viability and value of each operation by simply comparing the value-added of a single unit of goods sold. In this regard, the upgrading framework insufficiently justifies the theoretical assumption regarding supplier firms' uniform desirability to ultimately build brands, and fails to explain why only some firms transform to such operations.

Examination of Korean firms reveals the relevance of local institutional and competitive dynamics in patterning firms' responses to constantly shifting economic landscapes, contributing to literature that examines how and whether certain national institutional patterns of economic coordination contribute to firms' participation in the global economy (Bair & Mahutga, 2012; Feenstra & Hamilton, 2006; Lane & Probert, 2006).

## **2. Patterning organizational growth: Global production versus institutional sociology**

GVC/GPN and institutionalist theories disagree on whether global networks or local institutions should be the focus when examining development of local firms. If theories of global production emphasise the coupling between developing country suppliers and global firms as pertinent to development (Coe & Yeung, 2015; Gereffi et al., 2005), the institutionalist literature concerns itself with formal and informal institutions that lend to distinctive patterns of economic control and coordination (i.e., hierarchy-network relationships) and state-market relations that guide specific patterns of growth (Hall & Soskice, 2001; Hamilton & Biggart, 1988; Whitley, 1992). Their disagreements, however, rather than merely concerned with whether global or domestic factors contribute more to development, regard how to locate sources of organizational strategies. GVC/GPN's more proximate concern lies with networks' function as technical and material sources for firms' capacity-building. Yet a focus on buyer-supplier networks does not explain the varied trajectories of firms' organizational development along incremental or more drastic lines when there is no inherent reason a firm should upgrade along functionally related tasks or only intra-sectorally. Institutionalists' more distant focus, concerned with how firms' embeddedness in certain taken-for-granted and historically-formed institutional arrangements guides actors' organizational logics and routinized strategizing provides stronger explanations for motivations behind firms' discontinuous or related expansions. In the case of

garment suppliers, this is whether to assume the position of an autonomous lead in marketing, branding, and retailing, to provide support functions to buyers as network operators. Korea's garment industry, a rare market in which export suppliers have either entered branding (Gereffi, 1999; Tokatli, 2013) or turned into significant global contract manufacturers (Applebaum, 2011), provides fertile ground to adjudicate these approaches.

### *2.1 Capacity-building in global value chains and production networks*

GVC/GPN literature generally suggests that inter-firm links between suppliers and lead firms serve as the primary source of necessary knowledge and resources for suppliers' capacity building. Big buyers 'act as strategic brokers in linking overseas factories with evolving product niches in the main customer markets' (Gereffi, 1999, p. 43) and govern knowledge flows. Repeat engagements with lead firms, 'the primary sources of material inputs, technology transfer, and knowledge' (p.38), thus provide opportunities of continued learning, and increase the likelihood that supplier would upgrade. East Asian garment manufacturers are said to serve as exemplars given their move from simple assembly to 'full-package supply' or OEM in charge of the full process of fabric purchase, cut-make-trim, assembly, dyeing, and finishing. Such upgrading, it is said, subsequently opened doors for OBM in which 'the biggest profits are made in buyer-driven commodity chains' (Gereffi, 1994, p. 86).

Conceptualization of the chain, along which firms capture differential levels of value from their respective positions, originally encouraged viewing a firm's move up the chain as most desirable for continued development. Yet, recent studies challenge aspects of this early perspective on a few grounds, since the focus, previously on firms' positions in a chain, expanded to discussions of production process, products, or function (Humphrey & Schmitz, 2000). First, there was recognition that buyers demonstrate more willingness to support supplier upgrading when capabilities in question directly concern aspects of manufacturing,

such as technical training, inspection, supply chain management, or operation of testing facilities, more so than functional upgrading in non-production skills, such as design or marketing (Schmitz & Knorringer, 2000), casting doubt on initial beliefs regarding how global links gradually lead the firm to upgrading. Additionally, when suppliers are viewed as impinging on lead firms' core activities, lead firms often pressure suppliers by threatening to discontinue relationships. Yet, cases have been noted in which obstacles were insufficient to prevent firms from taking up higher value-added activities, including branding (Tokatli, 2013). Second, earlier perspectives that argued that the linear upgrade from OEM/ODM to OBM is desirable, both objectively and from suppliers' perspectives, and thus assuming supplier firms would direct resources accordingly, are increasingly challenged by studies that note supplier firms' upgrade to dominate a certain node on the commodity chain, or gain relational leverage (Gereffi et al., 2005, p. 86) rather than focus on branding, might constitute equally advantageous or even a sounder strategy. For example, responding to U.S. electronic firms' growing demand for full-service, outsourcing options, some turnkey suppliers emerged with service and technical capabilities that are difficult to replace (Sturgeon, 2002). In extreme cases, firms emerged as platform leaders with the power to set standards and conventions that drive the industry (Ponte & Gibbon, 2005), allowing suppliers to keep lead firms' power in check.

Although this form of extreme supplier power is rare in light industries, such as garments, in which capacity tends to be generic, suppliers can spread risk and leverage power over lead firms by dealing with a large number of buyers and gaining rarer knowledge (Sturgeon, 2009). Consider, for example, the well-known Taiwanese and Hong Kong contract manufacturers or third-party trading firms that learned to gain leverage over buyers by building relational power. Hong Kong's Li & Fung draws on a network of more than 10,000 factories worldwide, and operates 70 offices in 40 countries, to manage supply chains for

light commodity goods. 'Activities span the supply chain, including initial product development and design, raw material sourcing, production planning, factory sourcing, manufacturing control, quality assurance, export documentation, and shipping coordination,' and even distribution, logistics, and retail operations (Applebaum, 2011, p. 260). Taiwanese Pou Chen grew to become the largest shoe contract manufacturer worldwide by producing 15 per cent to 30 per cent of Nike's worldwide stock, and despite integrating upstream production in materials and operating retail stores for some Asian partners, the company does not engage in branding to realise \$3.6 billion annual revenue (Appelbaum 2011). These firms and many others (e.g., Azmeh & Nadri, 2014) exemplify where supplier firms have obtained relational power by enhancing capacity to provide production services while maintaining transactional ties with global buyers. The fact that value derived from a single unit of good is lower can be offset by acquiring voluminous deals or dealing with numerous buyers, or in extreme cases, 'establish[ing] monopolistic control over a single link in the commodity chain' (Feenstra & Hamilton, 2006, p. 84). Such focused operations reduce costs and risks associated with supplier firms shifting toward branding.

In contrast, shifting to branding not only requires discontinuation of transactional ties with global buyers, but also insertion into a market environment with varied logics of competition and profit-making. The latter requires large monetary investments, and a firm's horizontal insertion into competition against other OBMs, not just with branding, marketing, and retailing products, but finding competent suppliers or further integrating production with those operations. These firms are subject to risks that are inherent in the relative inflexibility of retail operations, coupled with fast fluctuations in demand, which might expose one to high inventory risks and store maintenance costs during downturns. So, under what conditions would a manufacturing firm be incentivised to shift operations to OBM, despite the move implying forgoing transactional relationships with global lead firms and drastically

shifting operations to build distribution and retail channels, and marketing its own goods?

One strand of institutionalist literature highlights the role of organizing logics when incentivizing firms to adopt particular strategies for their competitive positioning in a changing economic landscape.

## *2.2 Institutionalised organization of business activity*

Abundant institutionalist literature examines the causes and dynamics of divergent economic coordination and control by dominant firms across institutional contexts (Biggart & Guillén, 1999; Feenstra & Hamilton, 2006; Hamilton & Biggart, 1988; Whitley, 1992). Much of this research focuses on Asia, and the distinct business configurations and inter- and intra-firm networks that occupy these economies. Yet, unlike the varieties of capitalism (Hall & Soskice, 2001) perspective, in which formal, state, and labour market institutions in primarily advanced economies do the work explaining economic coordination, studies on Asian capitalism attend to the role of historically legitimatised authority relations in patterning economic action and the widely varied line-ups of business organizations (e.g., Hamilton & Biggart, 1988).

Studies of Korea purport to explain the exorbitant level of economic concentration by chaebol, highly diversified and vertically integrated business groupings that dominate every sector of the economy. Generally, studies combine authority or state-centred explanations<sup>iii</sup> with Weberian scholars focusing on historically shaped patrimonial authority relations and developmental state scholars focusing on the role of the state in Korea's post-war growth and rise of business groups (e.g., Amsden, 1987; Biggart, 1997; McNamara, 1990; Whitley, 1992). Early industrialists later turned chaebol, relied on internal and state-sponsored resources, aspired to whole-market domination, and competed fiercely amongst themselves. Each group, striving for market domination, minimised dealings with competitors to prioritise

operational self-sufficiency and restrict competitors' market access, vertically integrated as many steps as possible and diversified across related and unrelated sectors (Feenstra and Hamilton 2008). Their growth into multi-sectoral business groups led to massive concentrations of the Korean economy to the extent that the top 10 chaebol groups were responsible for 66 per cent of the total value of Korean exports in 1987.

Chaebols' economic monopolization and their provision of limited employment resulted in widespread economic segmentation. From the 1970s, the SME sector grew rapidly, absorbing workforces excluded from large, firm-based sectors and engaging in residual activities ignored or deemed unprofitable. SMEs' marginalised positions and lack of resources led to frequent failures and overall underdevelopment. Nonetheless, some firms thrived by responding to opportunities in export markets or forming subcontract relationships with chaebol firms (Regnier, 1993), among whom are garment manufacturers that grew into admirable players. Their organizing logics inevitably diverged from the chaebol's. Instead of hierarchical organization, the firms had embraced network operations in specialised segments. Even today, they continued to operate as organizational extensions of their buyers, rather than a diversified entity with self-sufficient operations, in a fashion conforming more thoroughly to GPN/GVC's supplier model.

How do these organizing logics and embeddedness affect supplier firms' continued development in the changing global garment industry? Discussed above, upgrading to become an OEM/ODM supplier provides differential incentives than entry into OBM that introduces direct competition with other OBMs and requires a firm to make its own market through retail, marketing, and branding, and compete directly with other brand-name firms. In contrast, functional upgrading into design or other producer services allows a supplier to capture additional value through coevolution with lead firms, without severing previous relationships.

In the Korean apparel industry, as each group of firms embraced organizing logics that relied on hierarchical or networked coordination, their subsequent responses to fragmentation of global production likewise diverged. Chaebol firms, rooted in environments structured around the logic of whole market domination, globalised through discontinuous upgrading into branding and marketing operations despite having to forego transactional ties with global buyers. In contrast, producers rooted in dependent networked environments continued to upgrade incrementally in related design and producer services, in relation to the changing buyers' demands and global landscape. These arguments accord with Feenstra and Hamilton's (2006) study of Korean chaebol and Taiwanese contract manufacturers that shows how broader norms and cultures of competition have ultimately guided firms' divergent participation in the global economy.

The following empirical demonstration shows how certain initial distinctions led to sustained differences in the firms' global spread and integration. Data came from Korean-language trade magazines, internal historical archives compiled by chaebol groups, firms' annual reports, and other secondary sources. These data are complemented by interviews conducted between 2015 and 2017 with managers and employees of Korean apparel firms.<sup>iv</sup>

### **3. Early development of the Korean apparel industry (1910–1970)**

The Korean T&A industry originated during the Japanese colonial era (1910–1945). While Japanese-owned firms dominated the spinning industry with advanced technologies, a small number of Korean-owned and managed textile firms emerged and accumulated early capacity. The most successful depended on the colonial government for subsidies and bureaucratic ties, and gained concentrated ownership and control (McNamara, 1990). After independence, Japanese firms reverted to local ownership as Korean firms such as Kumsung (1948, later Ssangyong), Samho (1949), Taehan, Taepyongyang (1953), Cheil Wool (1954,

later Samsung) in natural fibers, and Hanguok Nylon (1962, later Kolon) in synthetics, emerged. Some, like Samho and Hwasin by the mid-1950s, already ran diversified businesses across industries such as sugar and flour, textiles, and retail, showing early characteristics that typify the contemporary chaebol. Their forerunners were a close-knit yet competitive group of industrialists who were already enlarging control over the domestic economy, who would, after 1960, compete fiercely to monopolise rising opportunities (Feenstra & Hamilton, 2006, p. 199). Although circumstances that led to the chaebol's growth are extensively documented elsewhere (e.g., Amsden, 1989), the section below illustrates how these competitive dynamics manifested in the apparel sector from the 1950s to the late 1980s.

### *3.1 Early capacity growth*

During Korea's first Republic (1948–1960), a small number of industrialists accumulated wealth amidst rampant corruption and clientelism. Although large sums of U.S. foreign aid poured in for post-war reconstruction, the state and grant administrators allocated entitlements in exchange for campaign contributions, furthering consolidation of wealth into the hands of a few industrialists. As Amsden (1989) points out, these industrialists were distinct in their business approach; they 'skated over the incremental growth that was characteristic of small-scale enterprise, operated with a different logic of investment from that of traditional cotton spinning and weaving firms, and formed crack troops to penetrate new industries' (p. 40). Some already invested in industries of national significance, such as flour and sugar, or cement and fertiliser, but acute supply shortages in textiles soon became apparent.

Under the import substitution regime (1954–1962), industrialists used access to aid and capital drawn from their other business ventures to expand into textiles. Lee Byung-Cheol (founder of Samsung), already with a successful sugar company, started a textile

factory (Cheil Wool) in 1954, and applied for a US\$600,000 loan from the industrial bank's counterpart funds for machinery purchase (Cheil, 1994, p. 138). Lee Dong-Chan, owner of nylon importers Kyemyung Sangsa, established Korea Nylon in 1957 and drawing funds from his trading firms, built a stretch yarn factory and applied for US\$4.2 million from the Development Loan Fund for construction of a filament factory (Kolon, 1995, p. 63). Other firms, such as Sunkyung Hapsum and later Daewoo Silup, expanded similarly through significant capital investment and then accessed technology through Western firms. Cheil (1994, p. 142), for example, records 16 instances of technology transfers with European and Australian firms between 1955 and 1958, during which foreign technicians, sent by companies that sold machinery, trained Korean staff members on spinning, grinding, shearing, raising, and milling technologies, and machine assembly. By 1957, the 'industry achieved complete import substitution in cotton, woolen, rayon and knitted textiles' (Kim, 1977, p. 35) around these large firms.

### *3.2 Making and marketing exports*

Exports presented an alternative paradigm for growth from the early 1960s, when firms turned their focus to the export market. Their first exports were an eclectic mix, a combination of fibre, textiles, and garments, and other light commodities. Cheil's first export was 8000 lbs. of worsted yarn to Hong Kong (1961), but its offerings soon included acrylic sweaters, worsted fabric, and rugs (Cheil, 1994). Kolon's early exports included baby sets for new-borns, stretch nylon and filaments, angora sweaters, Shibori products, umbrellas, and garments (Kolon, 1995), and Bando's wigs and basic garments (LG Sangsa, 2003). Rather than showing clearly defined and focused product strategies, the industrialists' approach in a technologically underdeveloped environment was to take whatever order they could first, and then devise a production strategy. Kolon (1995, p. 64) documents that its new 1962 Daegu

knitwear factory was essentially unnecessary since exports were produced through subcontracting to women knitting from home. 'The so-called "factory" composed of a yarn scale and tables and chairs for workers learning how to knit.' Once it exported a few baby sets through a buying company, orders kept coming in and the production floor expanded. This time, it established a sweater factory in Seoul, hired workers, and took in more orders for baby sets for U.S. hospitals from Japanese trading firm, Mitsui. 1963 was a turning point for the company since it sold US\$320,261 worth of exports, including stretch yarn, and processed products, including \$20,000 worth of bobbins, a small but significant amount.

These early export productions relied on custom bonded processing<sup>v</sup>. From 1968, however, U.S. buyers and Japanese garment assemblers started setting up facilities in Korea and directly ordered OEM products. Kolon, Bando, and many others perceived this as an opportunity and turned to OEM. Kolon, partnered with a regional textile company in Busan for the production of shirts in 1968, followed by a joint venture with a Japanese leatherwear manufacturer, in which the Korean side held onto management and processed leatherwear, and the Japanese side provided technology and materials. Other upstream chaebol, such as Cheil, still fulfilled OEM orders by linking with dependant subcontractors.

Despite its OEM engagement, the chaebol soon identified other ways to expand market control. One notable place was marketing. Instead of relying on Japanese trading companies, which played crucial roles as early matchmakers between Korean exporters and global buyers, chaebol firms began operating their own overseas trading offices to expand marketing networks. Samsung C&T, Cheil's affiliate, established a New York office in 1967 for the group's trading operations (Cheil, 1994), Kolon established offices in Osaka, New York, and Hong Kong (Kolon, 1995), and Bando operated in New York, Hamburg, Tokyo, Frankfurt, and Kuwait by 1972. Many report repeated opening and shutting of overseas offices due to budget issues and operational difficulties. Regardless, the firms continued to

expand, believing in the need to reduce ‘dependence on foreign trading firms,’ and help with the ‘prompt and proactive securement of orders’ (LG Sangsa, 2003, p. 154).

### *3.3 Entering OBM and making new markets (1970–)*

Despite exponential growth up to 1970, the price competitiveness of Korean light industrial goods lessened as GNP growth rates declined, inflation led to wage hikes, and expansionist macroeconomic policies resulted in rising current account deficits (Haggard & Moon, 1993). Resultantly, the government launched a big push toward heavy and chemical industries (HCI) in 1972. These market environments once again elicited chaebol’s patterned response; they increased investments in heavier industries (e.g., steel, automobiles, electronics, shipbuilding, and petrochemicals) as policy measures deployed preferential access to credit, tax incentives, and tariff exemptions for the import of capital goods. By 1977, 23 business groups diversified into HCI by establishing or acquiring firms in new sectors (Joongang Ilbo, 1977), changing the dynamics in T&A. With their groups’ strategy now focused on heavy industries, textile subsidiaries upgraded into synthetics and invested in machinery, chemical treatment, and dye operations, again accessing knowledge through joint ventures (e.g., Cheil partnered with Japanese Toray and Mitsui for polymer technology). Some of these products became inputs for the groups’ operations in HCI, providing a captive market for the subsidiaries.

However, chaebol’s diversification was not limited to sectors with state-led initiatives or in exports. As tightening quota restrictions and overcapacity in manufacturing affected OEM operations adversely, they entered the domestic ready-to-wear market throughout the 1970s, a sector largely neglected by the state’s explicitly export-oriented development paradigm. Much initial learning combined independent initiatives with borrowed foreign technology. For example, Kolon (1995), opened a small arcade to promote nylon products to domestic consumers in 1969, and started to sell branded sportswear products in 1970. It

designated in-house product developers to develop swimsuits, a product very few Korean consumers owned. The developers, with little knowledge about the product, dissected imported swimsuits, examined the stitching and fit, and identified similar fabrics to produce facsimiles. To test products, they wore them in and out of indoor bathtubs, but problems arose after they sold the products because the fabric appeared too sheer under the sunlight and faded inside the ocean. Consumer complaints ensued. 'These early mistakes became valuable lessons' for subsequent product development and testing operations (Kolon, 1995, p. 92).

Accounts of other firms also highlight the general significance of learning by doing. In 1974, to launch its first womenswear brand Decomas, Bando formed an in-house fashion division whose task was to extensively review Western fashion firms' strategies. The division learned about new theories of corporate communication, stating the effectiveness of clearly recognizable brand symbols in eliciting consumers' repeat purchases. It asked design and marketing professors from local universities to help select a symbol that would be affixed to all future products. In December 1974, it opened Bando fashion's first retail store, bearing a brown double-arrowheaded logo. It was an immediate success. This proved to Bando the potential of branded, ready-to-wear operations and the pent-up demand in a market in which traditional tailors handled most garment trade (LG Sangsa, 2003, p. 154). Active importation of foreign technology and its modification to suit the firms' needs played crucial roles. Cheil introduced the company's first womenswear line La Beaute in 1976. To gain advanced knowledge in design and development, it formed a licensing deal with French Cacharel and produced garments under the Cacharel name from 1981 with their technology. The company then signed a technology transfer deal with Italian Moda Tal and Gruppo Forall for its menswear line Galaxy (1983) and sent 30 garment technicians to Italy for training. Although

these deals provided generic knowledge in OBM operations, the firm incrementally digested and modified them through continued testing in the market (Cheil, 1994).

These firms with very little knowledge took on considerable risks to create a new domestic market for their products, during which they gradually adapted their organizations to domestic market operations. With minimal competition in the market, protected from imports, the chaebol OBMs quickly captured 15 per cent of the domestic market, with annual growth exceeding 5 per cent by the late 1970s (Joongang Ilbo, 1981). These expansions were not possible without continued loss-making investments, which was only possible through tapping onto the group's large internal capital. Cheil, for example, reported a loss of US\$10 million in fashion operations by 1983 (Cheil, 1994). One of the reasons for its continued loss was the manner in which the firms dealt with the inherent volatility of the fashion market. Small designer labels with trendier designers emerged often and swiftly, gaining popularity by introducing new styles. In their characteristic fashion, chaebol firms attempted to pre-empt the market by aggressively expanding into varied segments of the domestic fashion market, and acquiring smaller labels and license-manufacturing more foreign brands. E-Land's emergence in 1980 particularly added to the pressure since the company distinguished itself from department store distributed chaebol fashion through its mass-produced, lower-priced casual garments. E-land, a factory-less retailer, quickly became one of the largest Korean apparel firms by aggressively duplicating stores and introducing multiple casual brands. Chaebol firms infused more capital, hired more designers, revamped their organizations into different brand units by marketing, retailing, and producing multiple brands, and followed E-Land in the casualwear market. By the 1990s, the large firms (i.e., Cheil, E-Land, Kolon, and LG Fashion) carried expansive portfolios, amounting to dozens of brands each and hundreds of retail points, with diversified operations across apparel segments, and together controlled 40 to 50 per cent of the domestic market by the mid-1990s (Choi, 2000). Their market

domination was despite them not keeping pace with broader changes occurring internationally until the late-1990s, such as the quick-response (QR) system that was revolutionizing worldwide fashion markets. Conceptualization and distribution took nine months to a year, and production lead-times exceeded 90 days. Products were mass-oriented; each brand's biannual collection included 200 to 300 SKUs and 40,000 to 57,000 pieces.

Initial development of the large fashion firms fully displays chaebol's organizing logic of diversified market domination. Each firm competed to expand operations in domestic and export markets, relying on broader, group-level resources, while rarely cooperating. As they furthered export production, they established larger and more advanced factories, and integrated more processes whenever possible, including marketing networks. Once in OBM, they developed numerous brands across categories, rather than staying specialised. Such patterned responses were not through the initiative or knowledge of their buyers, nor the state, but what had been devised as an institutionalised strategy to operate a large, diversified business by the 1970s Korea.

### *3.4 The rise of focused garment manufacturing and export processing (1970–)*

From 1968, the upsurge in sourcing activity by U.S. retailers encouraged emergence of new garment manufacturers. These latecomer firms, usually small with single-market operations, started in the newly designated Export Processing Zones, or urban production clusters.<sup>vi</sup> Many formed supply relationships with chaebol textile subsidiaries to obtain raw materials, and often supplied products for the chaebols' domestic or export operations (Lee & Ho, 1994). However, the bulk of their business came from Western buyers who were setting up buying offices in Seoul or ordering products through trading companies.

Due to the fundamental instability of this sector, very few firms sustained their businesses over the decades. Records of surviving firms indicate that many of their founders

accumulated experience as former employees of chaebol firms or trading companies, and then quit to start their own businesses once opportunities arose. The massive rise in demand for consumer goods, enabled by U.S. and worldwide retail revolutions and the shopping mall boom (Feenstra & Hamilton, 2006), especially generated dire need for reliable suppliers, and accounts from business people reveal the extent foreign buyers would go to secure merchandise during early development of the sector, often even directly providing financial and technical assistance. This was especially important since development of Korean SMEs had been systematically neglected up to the 1980s, and many garment industrialists' start-up stories are full of tales of scrambling for funds, much of it amounting to modest amounts of 50 to 100 million won that originated from friends and family.

Kim Dong-nyeong was the founder of Hansae Tongsang, a trading company in 1972 that operated until bankruptcy in 1979 when the oil shock brought abrupt currency fluctuations and increased the cost of raw materials overnight. His main buyer, K-Mart, was in continuous need of suppliers, offering to extend credit in exchange for continued fulfilment of orders. The subsequent 9-month-long exchange with K-Mart helped Kim pay off his creditors, build a factory, and re-establish Hansae in 1982, this time as a OEM garment manufacturer (MaeKyung, 2010). Sung Ki-hak, a former employee at Seoul Tongsang, a trading company that exported wigs and knitwear, established Youngone Trade in 1974 on encouragement from his Swedish buyer. His firm first operated as the buying agent for the Swedish company but, realizing the shortage of down jacket manufacturers, Sung soon entered manufacturing. He persuaded Portland-based White Stag to transfer jacket production and synthetic padding technologies in return for fulfilment of 10,000 pieces of skiwear. Using this knowledge, he next dabbled in popular products such as London Fog jackets throughout the early 1980s, and within five years of operation was able to achieve revenue of up to US\$5 million by acquiring orders from additional European and domestic

buyers. Despite the success, early Swedish networks provided the most sustained source of profits until the 1990s when Youngone became Northface's primary production partner. These garment manufacturers thus, unlike the chaebol, continued to depend on ties with buyers to form a fragmented downstream processing sector throughout the 1980s.

These two groups of firms, the chaebol companies and focused garment producers, were responsible for the majority of domestic textile and apparel production, which during the first half of the 1970s accounted for approximately 30 per cent of Korea's exports. Although product categories changed over time (i.e., from cotton-products to knitted and synthetic products [Kim, 1977], and from generic items to non-quota regulated items or items targeting non-quota regulated regions), export production remained heavily OEM-based. 'Until 1988, approximately 95 percent of garment exports were produced under contracts to foreign firms, rather than under Korean-owned labels' (Lee & Ho, 1994, p. 148).

Despite a shared history of exports, the two clusters of apparel firms were considerably different in their origins, domestic embeddedness, and patterns of competence-building. If chaebol subsidiaries increasingly articulated their organizational logic of market domination through vertical integration and diversification, the focused manufacturers, with limited access to resources such as cheaper credit or bank loans, adopted a different strategy of operating as specialised network players alongside their buyers. They grew focused capacity in the assembly of garments through sustained ties with buyers, initially as captive suppliers (Gereffi et al., 2005). These early differences provided bases for subsequent divergence in their restructuring and global integration.

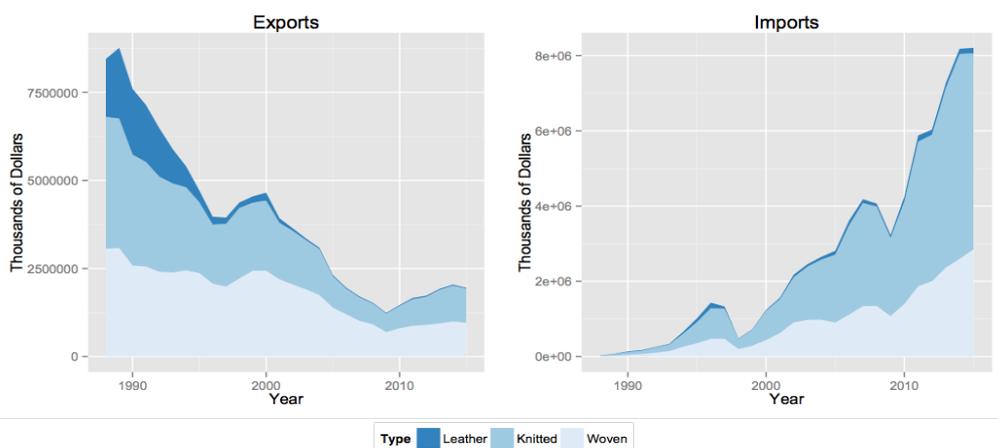
#### **4. A changing industry in a globalizing world (1980s–2000s)**

Changing global political–economic conditions precipitated a crisis of domestic production during the 1980s, challenging the status quo of Korean firms. Korea's quota in the

Multi-Fiber Agreement (MFA), which restricted the influx of the developing world's garment and textile products into the United States from 1974, tightened throughout the 1980s. As Western trade deficits increased, political pressures to revalue Asian currencies mounted, culminating in the Plaza Accord in 1985. This raised the value of the Japanese yen relative to the U.S. dollar by 40 per cent. The Korean won and Taiwanese dollar in turn rose over the following years, triggering restructuring of the region's manufacturing networks.

The tumultuous environment led labour-intensive garment manufacturing to be offshored to cheaper production bases. Korean investments in overseas garment manufacturing, nearly non-existent prior to 1980, increased around 1985 and surged to 103 instances in 1989.<sup>vii</sup> Foreign investments peaked in 2005, with 567 instances and \$223 million in total investments. This led garments' output share in domestic manufacturing to decline from 15.5 per cent in 1985 to 7 per cent in 2000, and remaining facilities to drastically decline in scale.<sup>viii</sup> Most remaining operations were small-scale businesses in traditional markets, with fewer than a dozen workers operating only a few production lines. In addition to the crisis in manufacturing, the liberalization of the domestic market challenged the status quo of large apparel firms. During the Tokyo round of the General Agreement on Tariffs and Trade (GATT) negotiations (1973–1979), tariffs on 657 import categories, amounting to approximately 30 per cent of the country's imports, were reduced, followed by further plans for import liberalization and tariff reductions in 1983 and 1984. These regulatory changes eased importation of overseas-produced goods, introducing competition to large firms that previously dominated a protected market. From the late 1980s, the garment industry transformed from an export-producing economy to a destination for imports that bore Korean and foreign brand names (see Figure). As production fragmented globally, the two groups again distinctively structured their responses and integrated in divergent manners into the changing global economy.

Figure: Korean Apparel Exports and Imports (1988–2015)



Data: Korean Trade Statistics (<http://www.kita.net>)

#### ***4.1 Large garment firms: Transforming into transnational fashion firms (1990–2015)***

Market liberalization, and the domestic entry of global brands throughout the 1990s, challenged the status quo of the large firms. Mass-label foreign imports first transformed the fashion sensibilities of Korean consumers, and then fast fashion firms revolutionised the market with emphasis on agility, product diversity, and leanness.<sup>ix</sup> Consequently, chaebol firms experienced stagnant sales and declining market shares, with overstock rates hovering around 30 per cent (Choi, 2000). Increased competition led firms to reorient their strategies, now to enhance competitiveness against well-known global companies. Despite embracing spatial fragmentation in production, firms did not necessarily converge in their organizational strategies with the largest global fashion firms (Bair & Mahutga, 2012), for example, by turning into factory-less merchandisers, but instead strategized based on already being vertically integrated and diversified; they turned into lead fashion firms with vertical capabilities by enhancing their fashion and supply chain capabilities, and integrating them with global retail and production operations.

#### *4.2 Enhancing fashion and supply chain capabilities*

Since 2000, the large firms coped with intensifying competition through continuing expansion through aggressive M&A of domestic and foreign designer lines while internally strengthening their design capabilities. After Lee Seo-hyun, Parson's educated daughter of Samsung's founder, took over its Fashion Research Institute in 2002, Cheil launched the Samsung Fashion & Design Fund (SFDF) to discover rising Korean designers and create collaboration lines, and sponsored and later acquired designer lines such as Juun.J. Other firms also invested in trend research and forecasting, and encouraged their creative workforces to showcase original designs.

One Cheil (now Samsung C&T) designer attested to the drastic changes. 'In 2000, much of our so-called "design" activities consisted of knocking-off European design and putting our brand logos. In-house designers genuinely created very little, despite their strong design backgrounds. This culture lasted until 2003 or 2004 when direct imports swamped the market and changed the competition.' The company now focuses heavily on trend research and marketing. 'Designers (in my team) go to Vicenza twice a year for development training, Pitti Uomo twice a year, and London and Paris for market research.' These trips allow merchandisers and designers to watch European markets operating a season faster, and use the information for next seasons' draw-up. This complements the trend research conducted internally (personal communication, June 2016).

Benchmarking Western firms and licensing for brands such as Cynthia Rowley, the firms also expedited inventory turnover and reduced overstock rates by implementing QR and vendor-managed inventory control. Kolon and Cheil experimented with QR from 1997 with a few SKUs by primarily batch-producing items and reproducing successful ones overnight in own factories. By 2010, the firms expanded their QR incorporation to 20 to 40

per cent, and some brands moved away from the previous 2 to 4 fashion season model.

Samsung C&T's fast-fashion line, for example, produced 8000 designs in 2015, and shelved each item for 2 to 8 weeks in-store. The lead time from conceptualization to sales took 8 weeks. Some firms increased outsourcing to attain product diversity.

Despite these trends, the businesses remain ambivalent about the wholesale adoption of the factory-less model, similar to Sturgeon's (2007) observation of Japanese electronics makers. The percentage of production outsourced by large garment firms increased from 11.7 per cent in 1985 to 45.2 per cent in 2007 (Hong, Lee, Kim, Yang, & Lee, 2010), though most did not embrace the full factory-less model. Instead, Korean firms further strengthened integration between textile and fashion divisions, while limiting outsourcing to assembly of low-cost lines. Cheil, for example, established a textile and design centre in Biella, Italy in 2004, and recruited local professionals to strengthen textile development. These textile products now serve as inputs to its high-end suit lines, Galaxy and Rogatis. LF (previously Bando [1956–1995]) also established textile and design centres in Milan and Paris while maintaining assembly of high-end menswear suits in its domestic Yangsan factory. When asked about it, an executive in a Korean chaebol stated, 'Keeping production in-house [is] just the way of doing business' for chaebol firms. 'When chaebol launch brands, they control all aspects from A to Z. It costs millions to launch a brand, but the tendency is to believe it is safer to keep operations in-house' (personal communication, December 2015). E-Land even further vertically integrated production from being a factory-less operator. It purchased 10 textile and assembly factories in Vietnam, Sri Lanka, and Myanmar since 2006, and established a material testing centre. In their mixed assembly system, the firms now produce smaller-volume, higher-quality lines domestically in own or partner factories and typically outsource lower-priced items to overseas OEMs. For fast-fashion lines, domestic spot

production often complements overseas mass production (personal communication, June 2016).

Cheil's high-end menswear designer elaborated that domestic in-house production not only provides an increasingly rare made-in-Korea mark, but also eases the team's operation. 'Our menswear team has a significant advantage. We can freely visit the in-house factory to check the progress. Unlike brands that outsource, conflicts with suppliers are less likely' (personal communication, June 2016). A Cheil merchandiser agreed, recounting the company's attempt at fast fashion in 2011. 'To get the orders fast, at one point, we established linkages with up to twenty Chinese and Southeast Asian factories. It was simply too much to handle. Issues arose everywhere. Quality issues, delayed delivery, miscommunication. In 2013, we called it quits. We cut our suppliers into half and now do focused deals with the top few' (personal communication, June 2016).

#### *4.3 Globalizing distribution*

As production offshored and the domestic market liberalised, a consensus grew among Korean OBMs that selling abroad was the only way they could survive. Firms experimented with marketing and retailing abroad in the 1990s, starting with E-Land. The company conducted marketing research, opened an office in Shanghai, and launched its flagship brand E-Land in 1996. A factory-less merchandiser at the time, it experimented with turning its sourcing operations into end markets. Of its 40 brands, it selected 14 export-worthy brands to retail in urban areas, some of which, notably Teenie Weenie, had experienced great success. The brand netted US\$400 million in 2015 in China alone by targeting middle-class consumers who, influenced by Korean popular music and TV dramas, expressed increased fondness for Korean products. E-Land group operated 7,300 stores in China for its 44 brands in 2016. Half of its 2015 revenue of US\$6 billion was earned abroad, two-thirds of which

came from China. Likewise, Cheil operates 400 physical outlets in addition to retailing through online retailer Tmall, and LF distributes its brands in China, some of which are developed through licensing deals with Chinese fashion firms.

While China and Southeast Asia have been their main focus, the firms are trying to expand in the West and the Middle East for their higher-end labels. E-Land now operates regional headquarters in 10 countries, including in the United States and Europe. Through the wholesale market, Cheil distributes designer line Juun.J to 100 high-end retailers across 30 countries. Using vertical supply chains and multi-layered distribution strategies, by 2012, the large Korean fashion firms were experimenting with an integrated lead firm system in which their Seoul headquarters oversee the design, development, and global distribution of products. As such, these significantly transformed operations still continuously rely on internalised coordination, rather than external networking, demonstrating the global adaptation of chaebol's logic of hierarchical market occupation.

## **5. OEMs: Turning into multi-country suppliers (1980–2010)**

If chaebol fashion firms responded to the changing landscape by expanding their hierarchical structure globally, the most successful of garment OEMs responded to the pressures differently. Some OEMs indeed attempted to offset the decline in profits by entering branding,<sup>x</sup> but most failed to establish significant brands,<sup>xi</sup> and many even went out of business. Instead, the most successful OEMs developed into multi-country suppliers and continued to depend on transactional relationships with global buyers, inserting them further into networked chain governance while growing relational capacity.

Unlike in their early capacity growth, buyers played little direct assistance in their growth into multi-country suppliers. It was up to the suppliers to accumulate the knowledge necessary for offshoring and setting up factories in the midst of rising competition from

lower cost regions. Each step proved a steep learning curve. Both Youngone's and Hansae's first overseas ventures, in Bangladesh and Saipan respectively, were met with multiple challenges including conflicts with local joint venture partnerships, severe losses and factory destruction due to a cyclone (for Youngone), as well as protests by local residents against factory construction (for Hansae). These issues led the unit production cost of Youngone's Bangladesh factory to exceed that of Korea's until 1992 and proved significant lessons for the industrialists who now claim to be specialists in building overseas factories (Economy Chosun, 2013).

As the OEMs learned to operate from an overseas base, greater changes swept the global apparel production landscape. The rise of fast fashion and trends of product diversity shifted the competitive landscape, once single-handedly on costs (Tewari, 2006) towards emphasis on suppliers who could 'source materials, coordinate logistics, and operate in locations that lend themselves to shorter delivery cycles' (Just-style, 2010). Korean manufacturers responded by expanding their overseas operations beyond a single base, realizing that multi-country operations could help respond to the fast-changing, diversifying buyers' needs and provide location-specific advantages concerning labour skills and costs, preferred tax rates, and market access while reducing risks that can be brought by depending heavily on any single production location or buyer. Throughout the 1990s, the OEMs developed multiple overseas supplier markets. Hansae expanded its network of factories to Indonesia, Guatemala, Vietnam, Myanmar, and Nicaragua, and Youngone expanded to Vietnam, China, and El Salvador. Sea-A also expanded across Southeast Asia and Latin America.

Hansae, which once relied heavily on discounter K-mart, vouched to avoid reliance on a single buyer for more than 30 per cent of its revenue, and diversified its buyer base, using the multi-country operations to accommodate diverse requirements. In 2003, 45 per

cent of its revenue came from U.S. discounters, including Wal-Mart and K-Mart, which placed large-volume, low-cost orders subject to fierce global cost competition. Hansae produced these orders in Nicaragua, a low-cost base with high quota availability. Another 35 per cent came from fashion merchandisers such as Jones New York and American Eagle Outfitters. Providing higher profit margins, such mid-priced orders are complex to assemble and have short delivery cycles. These are produced in Saipan, U.S. territory, which is free of export duties, and has factories equipped with better technology and skilled workers. Finally, sportswear manufacturers Nike and Reebok imposed highest production standards, and Hansae set up production lines and quality testing centres in Vietnam following its buyers' manuals (Hankyung Business, 2003). As a superintendent of Hansae's Vietnamese factory stated, 'The basics of the factories are the same but only the floor layouts and production systems slightly vary depending on buyer's needs' (Maekyung, 2015).

MFA phase out only contributed further to suppliers' expansion as big buyers started to consolidate orders to a few capable multi-country suppliers rather than relying on many small firms (Gereffi & Frederick, 2010). From 2005, Korean suppliers responded to vendor consolidation by aggressively expanding their facilities and service operations. For example, Hansae operated fewer than 50 production lines in 1999, but over 300 in 2010. Between 2000 and 2015, Hansae's and Sae-A's export sales increased more than tenfold.

Buyers' changing needs simultaneously led suppliers to extend operations to design and textiles development. Sae-A, for example, started to operate a fabric library in New York for its buyers that compiles all of the swatches (i.e., textile samples) the company has used since 1986, including swatches sent over by buyers, and those it produced in partnership with suppliers. One hundred fifty to two hundred swatches are added and barcoded monthly, along with colour, style, and pricing information, which buyers can access without visiting the factories (FashionBiz, 2007). In addition, the suppliers increased investment in design

capabilities drawing on, and competing against OBMs for, Korea's deep design talent base. In 2015, the top 3 suppliers employed 205 designers, a figure comparable to mid-sized OBMs. According to a marketing director of Hansoll, the 4th largest Korean garment supplier and specialist OEM/ODM in knitwear, 'buyer-supplier relations significantly changed around 2000. We have accumulated considerable knowledge in textiles and design operations through recruiting relevant workforce. 15-20% of our buyers now expect us to suggest material or designs, rather than the other way around, and we responded through employing designers who used to work for OBM firms' (personal communication, July 2017). Being in a position of dealing with several dozen buyers at a time, the companies often possess better grasps of textile and design trends in the industry, allowing them to co-lead product development operations. Target and Wal-Mart involve Sea-A designers from the conceptualization stage of their private-label garments and shares POS information with them. Hansae designers attend annual design meetings twice in Victoria Secret's New York office to plan the next season's line-up, much of whose sketch-ups derive from Hansae.

Today, the largest Korean supplier firms deal with more than 40 big buyers and produce over a million garments daily as the world's most advanced integrated garment manufacturers. Hanse is now the largest knitwear maker in Asia, operating 10 factories in Vietnam, Indonesia, Guatemala, Myanmar, and Nicaragua. It employed 28,000 workers and produced 3.5 hundred million pieces in 2016 for its 40 buyers (2015 revenue, US\$1.4billion). Youngone (revenue of \$2 billion in 2016) operated 23 factories and 1135 production lines in 2016 in Bangladesh (42,000 workers), Vietnam (10,100 workers), China (9,000 workers), El Salvador (1,000 workers), alongside its vertically integrated textile operations in dyeing and knitting, and design centres in Seattle and Bern. It is the largest manufacturer in Bangladesh and supplies 40 per cent of Northface's global stock. Sea-A (revenue of US\$1.5 billion in 2015) produces 1.8 million garments daily for its 50 buyers, including Wal-Mart, K-Mart,

Gap, Adidas, and Zara, in its 41 factories, which accounted for 21 per cent of all garment exports from Guatemala, 10 per cent of Nicaragua's, and 7 per cent of Indonesia's in 2008. Although most of their revenues derive from production, 10 to 20 per cent come from ODM operations (Moon & Kim, 2015). These numbers place Korean suppliers squarely in competition with the largest Taiwanese and Hong Kong contract manufacturers, such as Stella International, Eclat, Makalot, and Feng Tey, also operating factories across Asia.<sup>xii</sup>

The successes of Korean suppliers derived from their continued embrace of network operations that first arose out of Korea's segmented economic context that necessitated their dependence on large firms. While showing little deviation from the principle of network organization, they have since learned to capitalize on changing buyers' needs and global economic trends to assume an integral position within the global garment economy as the world's most advanced garment manufacturers.

## **6. Conclusion: Globalization and the transformation of Korean apparel firms**

Has Korean garment sectors' integration into the global economy led the sector, once clearly segmented along varied hierarchy-network forms of organization, to converge into a singular form of globally coordinated production? A few global production and institutionalist scholars provided conflicting responses to similar inquiries. Institutional writings have generally echoed Whitley's (1996) assertion that continued global integration of business activities is mediated by the workings of local institutions and firms, and therefore diversity in economic organizations should remain paramount. In addition to Feenstra and Hamilton (2006)'s examination of the divergent global integration of Korean and Taiwanese businesses, Lane and Probert's (2006) study of the sourcing and contracting strategies of United Kingdom and German garment firms revealed significant differences in how firms

constructed global production networks, built supplier relations, and configured products, demonstrating the salience of national-level diversity. Others such as Bair and Mahutga (2012) found more support for the GVC/GPN thesis that industry-specific dynamics, more so than regime types, guide establishment of global production networks. This latter study, however, equates convergence with the rates of spatial fragmentation, while bypassing the issue of how hierarchy–network relations adapt to changing global conditions. Tracing the adaptation of network-hierarchy relations formed at the sub-national level within Korea’s segmented economy, this paper demonstrates significant continuities on prior conditions despite considerable spatial fragmentation in firm operations. Following such perspective, it further argues that Korean firms’ varied entry into ODM and OBM are better interpreted as having resulted from the firms’ gradual articulation of organizational strategies, built upon the varied hierarchical or networked coordination principles formed through specific historical and institutional circumstances.

Relatedly, this examination supports recent studies that urge for a more complex understanding of supplier upgrading and view OEM and ODM operations as constituting separate spheres of activities subject to disparate logics, risks, and competitive dynamics. The variable sets of risks and benefits each entail render a straightforward comparison of value-addedness meaningless. Value capture and profit margins enabled by OBM operations are often exposed to highly volatile political and economic circumstances whose adverse effects are difficult to mitigate as illustrated by Korean fashion chaebol’s path to international OBM development. When they attempted to offset their domestic decline upon liberalization through expanding mainland Chinese operations, their momentarily hiked profits soon evaporated as local markets slowed down and Korean products were met with large-scale boycotts due to diplomatic rift regarding the THAAD anti-missile system. The firms are now trying to compensate their losses through expanding in Southeast Asia and the West.

However, the need to tailor products and operation according to local market characteristics combined with the sheer cost and scale of establishing retail and marketing presence across different countries are proving Korean OBMs' global scaling an uphill battle.

The multi-country suppliers, by contrast, have learned to mitigate the risk and volatility inherent in demand through allowing the model to flexibly accommodate new buyers (e.g., discounter to fast fashion) or handle different product categories (e.g., basic garments to fashion items). Their technical and productive capacities, drawing on knowledge accumulated through decades of interaction with buyers and tapping onto Korea's deep design talent base, put them ahead of late-starting suppliers. If getting ahead of the competition and seeing sustained profits in ever-changing market landscapes are the ultimate goals of both, chaebols' still tumultuous operations were possible only with deep pockets and discontinuous investments in a scale that would have been impossible for the OEM firms.

Finally, this comparative examination of Korea's apparel industry demonstrates the need for studies of global production move beyond the proximate concern for technical and networked sources of supplier upgrading to instead examine how firms' capacity building happens in conjunction with actors' actual strategizing and formulation of patterned responses to shifting global environments. This, however, cannot be done without a long-term focus examining how firm's local embeddedness and historically formulated cultures of competition guide certain taken-for-granted approaches to organization that actors draw upon as they strategize to get ahead in the midst of the constant transformation and reinvention of global capitalism.

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<sup>i</sup> In 2015, the top 6 chaebol fashion firms accounted for 30% of the domestic market sales (US\$8 billion) and employed almost 9000 workers domestically.

<sup>ii</sup> In 2015, the top 4 firms each netted over US\$1 billion in gross sales, and an additional dozen netted over US\$100 million. The top 17 firms employed 7214 people in Korea and 315827 worldwide.

<sup>iii</sup> It is not the main purpose here to adjudicate between the relative strengths and weaknesses of these theories. See Hamilton and Biggart (1988); Hamilton and Shin (2015) for in-depth discussion.

<sup>iv</sup> The empirical section relies on 6 interviews the author conducted with executives, managers, merchandisers, and designers of Korean fashion firms between 2014 and 2017. Each interview lasted around 1 hour.

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<sup>v</sup> In custom bonded production, imported parts or raw material undergo processing and are re-exported without payment of duty. Chun-woo-sa was the first Korean trading company to export garments under this production model in 1961. The company secured orders from Hong Kong and Japanese trading firms, and invited technicians from these countries to transfer the necessary knowledge to fulfill orders (Chosun Weekly, 2015).

<sup>vi</sup> Segye Mulsan (1964), Shinseong Tongsang (1968), Taepyeongyang Mulsan (1972), Taehwa (1973), Shinwon (1973), and Youngone (1974) are examples of surviving OEMs.

<sup>vii</sup> The Export-Import Bank of Korea. <http://211.171.208.92/odisas.html>

<sup>viii</sup> Statistics Korea (<http://kostat.go.kr>) reports that large manufacturing facilities with 50 to 1000 workers employed 37 per cent of the nation's garment workers in 1993. By 2005, the large facilities employed only 16 per cent of the workforce, owing to greater offshoring of large factories, whose total declined from 875 to 317.

<sup>ix</sup> Since the 1990s, fast-fashion firms have set worldwide standards for fashion production and retailing with speed-to-market approaches, in which trendy designs are available for a low price. Adopting the lean retailing model, companies such as Zara produced more than 10,000 designs annually, and introduced products to stores every two to three weeks, amounting to 18 seasons each year, in comparison to the conventional four. Based on real-time production, the QR system allowed quick discontinuations of unpopular designs, and continuous reorders and replenishments of best sellers (Taplin, 2014).

<sup>x</sup> Lecaf (1986), Pro-specs (1988, Gukje), Parkland (1988, Taehwa), Mercoledi (1989, Yoolim), and Unionbay (Shinseong, 1990) are examples.

<sup>xi</sup> The most notable success case is Shinseong Tongsang. The company gradually reduced its OEM share of to 50 per cent and carved out a domestic market for its brand. In 2015 it netted US\$600 million as Korea's 10th largest fashion and apparel firm.

<sup>xii</sup> In comparison to Taiwanese and Hong Kong counterparts, Korean suppliers are more vertically integrated, with stronger upstream raw material capacities. Korean suppliers have also played more critical roles in establishing production networks across Latin America and South Asia, in comparison to counterparts that concentrated operations in Asia.

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