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Value Chain and Networks of Foreign Direct Investment Firms in Transitional Economies:
Korean Textile and Clothing Foreign Direct Investment in Vietnam*

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As strategies for creating profits are differentiated by the national economic system and development strategies related to firms' geographical scope, they depend on the spatial contexts and product characteristics. In this perspective, strategies for the profit creation of Korean textile and clothing FDI firms invested in Vietnam has involved in the geographical differentiations in accordance with the development path of transitional economies, changes in institutional environments and the characteristics of products. Therefore, the main purpose of this research is to identify the way in which they have their own identity in transitional economies by investigating business pattern, commodity chain and extra-firm relations, which are related to institutional dynamics in Vietnam' There are two main characteristics of Korean textile an[l clothing FDI firms in Vietnam. The first is that all business activities involved in the commodity chain of them from R&D to production is controlled by global retailer and distributors, which is the buyer-driven commodity chain and the typical commodity chain of the textile and clothing industry. The second could be defined as over- or unforced embeddedness into the institutional legacy of the Soviet system, because they have been incorporated into pre-existing networks based on reciprocal relations in Vietnam.

Keywords: *value chain, networks, transitional economies, Vietnam, foreign direct investment, institutional dynamics*

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I. INTRODUCTION

Firms' geographical locations are closely associated with their strategies for creating profits because these strategies are differentiated by the national economic system and the development strategies related to firms' geographical scope. Moreover, various strategies for the spatial division of labor are established. In other words, firms' differential strategies for creating profits were successful in accordance with spatial contexts and product characteristics. Such a phenomenon occurs because value chain shapes are differentiated depending on the industrial characteristics of the spatial locations of firms, systemic environments and the development of spatial economy, and power relations between actors that form value chains of particular products.

In transitional economies of Vietnam, the case nation of this study, Korean foreign investment firms' strategies for creating profits also accompany geographical differences depending on the paths of these transitional economies,[1] changes in systemic environments, and the characteristics of the final products related to investment firms' production. The identity of Korean investment firms in transitional economies is understood more clearly by analyzing institutional dynamics, the characteristics of connected industries and firms, and firms' activities in creating value considering product characteristics. In addition, firms' activities to create value appear as various strategies given the power relations between the diverse actors that comprise each phase of the value chain. Therefore, the value chains of

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1 In economics, the term "transition" (or "transformation") is defined as a conversion or turnover of an economic system or economic order; this term means an occurrence of a new and heterogeneous system or order that excludes an existing one (Smith 1998). Because "transition" is a concept that implies an appearance of a completely new system, it has a similarity with the term "creative destruction" proposed by Schumpeter (1939). However, this article attempts to define the term "transition" (or "transformation") in a path-dependent perspective that emphasizes the continual "transformational" process from the legacy of former socialist society to the efforts to create a market economy and liberal society, not a disconnected "transitional" process from the "vacuum or tabula rasa" left behind by the collapse of the socialist regime.

Korean investment firms that are shaped under transitional Vietnamese economies should be analyzed concretely in the context of network or social relations formed within the influencing power of product characteristics, the legacy of socialism, the institutional dynamics of transitional economies, and power relations. The geographical particularities of Korean investment firms' strategies to create value in Vietnam should be analyzed on the basis of these aspects.

This article attempts to understand the relationship between the institutional dynamics of transitional economies and the activities of foreign direct investment (FDI) firms by analyzing the identities of production and marketing networks and the characteristics of local embeddedness of Korean textile and clothing FDI firms invested in Vietnam. More specifically, the purpose of this study is to illuminate the types and characteristics of value chains and networks by analyzing the reality faced by Korean textile and clothing FDI firms located in Vietnam. The types and characteristics of value chains and networks are considered at the following two levels.

The first level approaches the global commodity chain (GCC) and types of firms; Korean textile and clothing FDI firms invested in Vietnam are the cases at this level. The purpose of the first level is to provide a model of more successful advancements into Vietnam and more efficient inter-organizational and external-organizational relations on the basis of research on the management types of Korean FDI firms. In addition, approaching the current aspects of newly-forming international divisions of labor based on the relations between subsidiary companies in Vietnam and Korean parent companies likely suggests more effective Korea–Vietnam connection models.

The second level analyzes the identities of Korean FDI firms' networks. This level is approached by analyzing the embeddedness of the social relations among Korean FDI firms and related actors in local-level value chains. In particular, this level attempts to illuminate and identify the causes for the formation of types of networks of Korean FDI firms in value chains by explaining them through the dimension of institutional dynamics. In other words, this study considers the characteristics of networks of Korean FDI firms as products of the combination of administrative–institutional changes in the Vietnamese government with FDI activities and the institutional legacy of the Soviet system. Based on such a consideration, this study attempts to analyze the characteristics of Korean FDI firms' networks by approaching the institutional dynamics of transitional Vietnamese economies as changes in institutional facilities related to efficient correspondence among Korean FDI firms, local firms, and the Vietnamese government.

In summary, this study attempts to collect and analyze data on value chains and types of networks in transitional economies in Vietnam. To collect the necessary data and information on the case region, I visited two Vietnamese cities–Ho Chi Mihn and Hanoi–and their suburb areas in February 2006 and January 2007, and conducted semi in-depth surveys with 18 Korean textile and clothing FDI firms.

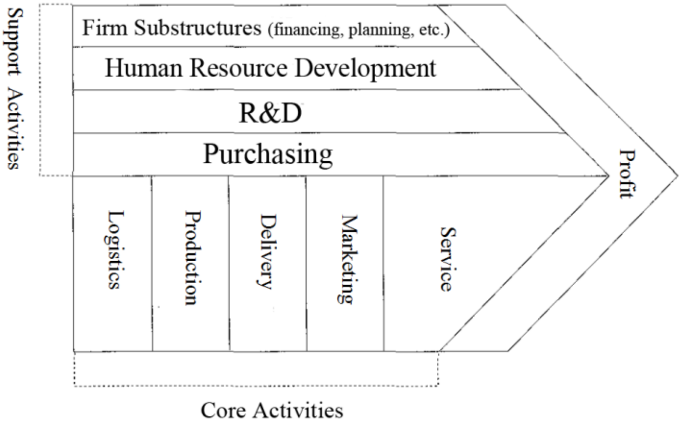
II. VALUE CHAIN AND NETWORKS OF FOREIGN DIRECT INVESTMENT FIRMS IN TRANSITIONAL ECONOMIES: FRAMEWORK OF ANALYSIS FOR THIS RESEARCH

This chapter discusses the effectiveness and limits of the value chain theory related to analyzing Korean textile and clothing FDI firms' activities. This chapter also recommends alternative models on the relations between transitional economies, networks, and foreign capital, which represent the fundamental research framework of this study.

1. Value chain

A value chain represents the total process of value activities, including idea development, research and development (R&D), production, and marketing of a particular product or service. Typically, such a value chain concept includes connections with actors that directly/indirectly relate to value activities by entities such as firms, research facilities, universities, and governments, possibly suggesting insights into firms' profit-earning strategies.

Porter (1985) first mentioned the term "value chain." The purpose of value chain is "to analyze competitiveness with connection to related institutions, and evaluate it in the perspective of added value of each activity. The fundamental units of such analysis is not the sum of merely machines, facilities, labor forces, and capitals, but the value-producing process



Source: Porter 1985.

Figure 1. The Basic Model of Value Chains

composed by the systematic works of these factors. Therefore, consumers are regarded as market actors who pay the value of products" (S.G. Kim 2005, 13). In other words, value created by firms is measured by the payment that consumers make for products or services, and value may be enhanced when profits are improved by reducing the costs required at each level of value activities. Consequently, value creation depends on the efficiencies of management in all value chain activities. However, because firms seek to maximize of profits rather than minimize costs, their value activities in value chains include R&D activities to develop more competitive products, market entries, and entry strategies to diversify functions inherent in value chains and cost-reduction strategies (see Figure 1). Therefore, "the whole system of firms' organization activities can be understood by value chain analysis because they work as particular factors in large value chains" (S.G. Kim 2005, 14–15). In this respect, I conclude that firms' competitive advantages are directly related to their competencies to manage their value systems and the linkage efficiencies within each value chain.

2. Global product chain and networks

The concept of a value chain provides insights into firms' strategies to create value from the perspective of industrial formation, and potential insights into strategies to create value attributable to the reconfiguration of the international division of labor from the perspective of spatial organization. The concept of global commodity chains (GCCs), which are value chains on a global scale, focuses on the flow of value that encompasses diverse geographic scales, including local and global ones. In particular, the GCCs theory has a significant economic geographical meaning because it suggests a logical framework for diverse economic accomplishments attributable to various types of industrial governance (Smith et al. 2002).

The Cyclical Rhythms and Secular Trends of the World Economy Working Group, affiliated with the Fernand Braudel Center for the Study of Economies, Historical Systems and Civilization at Binghampton University, has played a leading role in studies on GCCs. Hopkins and Wallerstein (1986, 159) defined GCCs as "networks of a series of labor and product processes accompanied with final production of products."[2] Gereffi et al. (1994, 2) defined it as "a series of inter-organizational networks, formed concerned with a particular product, that links households, firms, and nations."

The governance mechanisms that determine the GCCs arrangements and flows are classified as the producer-driven commodity chain and the consumer-driven commodity chain. The producer-driven commodity chain, which plays a major role in the production system management, is generally found in capital-intensive industrial sectors such as automobile, computer, aircraft, and electronics. In particular, producer-driven production systems are managed and mediated by headquarters of multinational enterprises, a noticeable characteristic of the producer-driven system (Gereffi 1994, 97).

In contrast, the consumer-driven commodity chain, has a significant

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2 This definition indicates the process of commodity production itself, particularly the supply value chain. However, contemporary studies focused on the post-production process and "upstream" part of commodity chains. For example, Gereffi (1994; 1999) condected studies on the roles of American retailers in the formation of clothing production networks and GCCs, and Harris-Pascal et al. (1998) proposed a study on the function of retailers in the British food industry. The increasing interest in such an upstream part of commodity chains has been reflected in studies on economic geography after the mid-1990s and led to an increase in related studies (see Wrigley and Lowe 1996).

characteristic as a vertically idsintegrated production network and is generally observed in labor-intensive and consumer goods oriented industrial sectors such as clothing, footwear, and toys. More particularly, most production activities in this type of chain are led by large retailers, designers, well-known brands, and trade companies whose headquarters are generally located in advanced countries (Gereffi 1994, 97).

The GCCs concept has three major characteristics (Gereffi 1994, 97). First, GCCs have input–output structures that connect various nodes of production, circulation, and consumption to economic activities. Second, GCCs have territorialities because diverse activities, nodes, and flows are distributed geographically within them. Third, GCCs have governance structures, power relations that determine ways to arrange finances, raw materials, and human resources within value chains. These three characteristics may suggest insights into the geographic discriminability of firms' profit-creation strategies in both dimensions of industrial structures and spatial structures. In particular, the formal governance structure of commodity chains (producer/consumer-oriented commodity chains), noted as the third characteristic, plays a roles as a mechanism that determines the arrangements and flows of value chains in industrial and spatial structures. From this perspective, approaching GCC perspective methods may be categorized as important for analyzing the identities of FDI firms' networks in transitional economies.

However, frameworks such as that of Gereffi's primarily focus on inter-firm relations but overlooked social relations that resulted from the power relations that determine the arrangement and flow of the value chain and the other types of social relations between the forming actors of the value chain. Therefore, the theoretical limits of the GCC perspective may be classified in the following four categories.

First, despite the serious role of nation-states as the contextual background that forms the order of domestic industries, the GCC perspective almost ignored their role. Although Gereffi (1994) noted the role of nation-states as interveners and facilitators, most research on GCCs rarely conceptualized their roles. Such a lack of interest in the roles and activities of nation-states from the GCC perspective came from the major analysis level of GCCs; the GCC perspective, which focuses on international levels, more easily limits the role of nation-states than trade policies. In reality, the interventionist influences of nation-states were reduced in globalizing world. However, nation-states may significantly influence the structuralization of commodity chains on other scales except for international ones, and they are still important as intermediaries in commodity chain networks (Smith et al. 2002).

Second, the GCC perspective overlooked labor roles that determine the geography of the economic activities that occur in value chains. These frameworks usually focus on labor cost, a factor that determines international patterns of production, manufacturing, circulation, and consuming activities; thus, little attention is paid to studies on the influence of labor structures on location determinants (Smith et al. 2002). Such theoretical holes in the GCC perspective suggest a more systemic analysis of the triangular relations of nation-states, capital, and labors that occur in the processes of production, circulation, and acquisition. In other words, because firms are germinated within networks of social/institutional relations, the economic development process is not limited to the boundary of commodity chains: nation-states' activities are able to restructure labor structures formed within the context of social/institutional relations and other types of relations between capital and labor, also influence the process (Hudson and Schamp 1995).

Third, the limits of the GCC perspective are related to their tendency to approach economic practices dually and linearly. The GCC governance perspective, as exemplified by Gereffi, dichotomizes commodity chain governance into consumer-oriented relations and producer-oriented relations. Thus, this perspective overlooked possibility of the coexistence of those two governance types. In addition, this perspective argues that similar commodity chains in different national contexts tend to converge to the same governance structure.

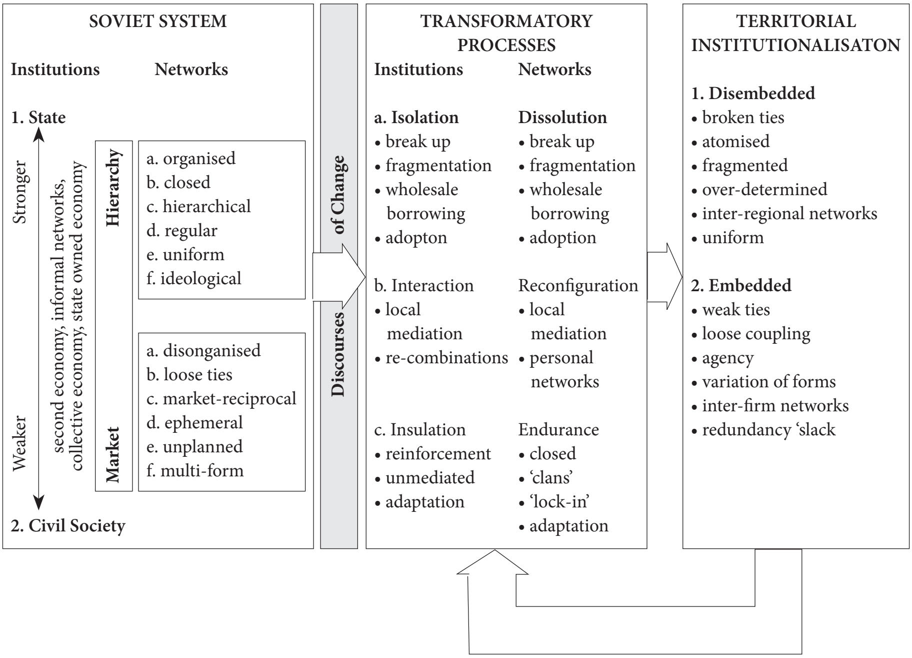
Fourth, the GCC perspective focused on commodity chains and divisions of labor at the international level, paid little attention to the local level. Such a problem occurred because "the GCCs perspective tends towards a privileging of national political boundaries as the crucial barrier and divide, and also assumes this to be the case for all industries equally" (Smith et al. 2002, 50). However, local transitions critically influence the performances of firms located in particular places and occur through social relations and production systems (Smith and Swain 1998). Therefore, the fundamental background of geographically divergent commodity chains needs to be investigated. In other words, commodity chains at the local level need to be analyzed, as do those at the global level.

3. Legacy of Soviet system, institutional dynamics, and networks of FDI firms

As previously noted, arguments regarding the theoretical limits of GCCs discuss significant theoretical gaps in the model of GCCs, not the model itself. Therefore, this study attempts to supplement the holes previously mentioned on the basis of Gereffi's GCCs perspective.

Institutions including laws, organizations, social traditions, contracts, and organizational procedures engage in standard activities that structuralizes human interactions, which is defined as discipline. Moreover, it enhances interactions among humans in both economic and social contexts and plays a critical role in the economic development process. Therefore, such a concept of "institution" guarantees close organic relations with the process of economic transition. From this perspective, conflict/correspondence relations of networks or social relations, among social actors that play leading roles in the transition of an economy may be influenced significantly. In other words, transitional economy networks probably occur with different properties attributable to the directions and characteristics of transitional dynamics. For these reasons, the relation between institutions and networks in transitional economies possibly occurs as various types; such a relation probably leads to divergent degrees of spatial embeddedness. According to Smith and Swain (1998), such diversity of institutions may be categorized as the following three types: (1) insulated institutions and dissolution of pre-existing networks, (2) interaction of institutions and restructuring of networks, and (3) insulted institutions and endurance of pre-existing networks (see Figure 2).

The first type insulated institutions and dissolution of pre-existing networks is a uni-linear transition, meaning that the Soviet legacy lost its function as an institution. In other words, this type indicates a noticeable reduction of facility of the state attributable to the collapse of the state system and the strengthened role of a newly-introduced market system. In this respect, this type is closely related to the neo-liberal perspective. In other



Source: Smith and Swain 1998, 41.

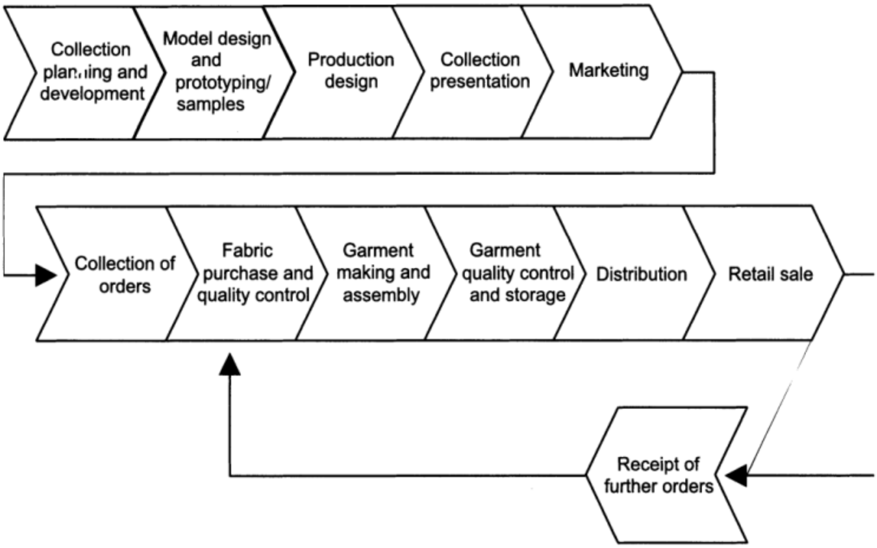
Figure 2. Differential Evolution of Spatial Economies attributable to transitional institutions and types of networks

words, as the former Soviet legacy has been transmitted into new capitalist system, the obsolete was insulated and disappeared and corresponding new institutions and networks emerged. Because such newly emerged institutions are hardly incorporated into national/local indigenous networks, interactions among organizations in local economies are hindered; such phenomena impede the development and transfer of resources and technologies necessary for economic development. As a result, such institutions and networks lead to the "unembedded territorial institutionalization" characterized by uniformity, deconstruction of connections, and fragmentation of local economic actors (Smith and Swain 1998, 39-44). Such an institution and network type allows FDI firms to create new social relations and networks by corresponding with new institutions, but hinders their embeddedness in local contexts because this type is generally insulated from local networks, embedded in pre-existing institutions.

Second, “the interactive reconfiguration of pre-existing networks in which institutions remained part of functioning networks enables the evolution of new networks which not only bore new economic rationality but also potentially the capacity of adaptability, and the post-communist mutations of pre-existing networks” (Smith and Swain 1998, 42-43). In this case, the roles of post-communist nation-states are not reduced or abolished; the nation-states probably mediate diverse conflicts and controversies caused during transformation process and support foreign capital attraction and the embedding of FDI firms.

Third, the cases of the insulation of new institutions and the endurance of pre-existing networks indicate particular contexts in which newly-introduced transformation-corresponding institutions malfunction and are insulated given the sever resistance by pre-existing powers and interest groups; in this case, pre-existing networks still endure and develop. In other words, “more common has been the dominance of insulated institutions resisting marketization, which has resulted in the development of over-embedded regional economies. In these cases, local networks are wedded to the formal or ‘shadow’ plan and the rationality of the old system. Despite this, the networks are not paralyzed, but the restructuring that does occur is characteristic of defensive measures as institutions seek to insulate themselves from an increasingly threatening environment and are thus ‘locked in’ to the rationality of the old environment (Smith and Swain 1998, 45).” In such a case, FDI firms, likely form unstable corresponding relations with pre-existing institutions and have unintended local embeddedness.

This study aims to understand the industrial and spatial structures of Korean FDI firms in the context of the new international division of labor by analyzing the GCCs of Korean textile and clothing FDI firms in Vietnam. In addition, this study approaches the identity of Korean FDI firms’ networks as the product of the connection between pre-existing Soviet legacy and institutional changes by analyzing of the relationship between Korean FDI firms and institutions as a framework for institution-networks relations, as previously argued.



Source: Lane and Probert 2004.

Figure 3. Steps in the Clothing Product Development and Value Chain

III. CHARACTERISTICS OF TEXTILE AND CLOTHING INDUSTRIES AND THE VALUE CHAIN

Textile and clothing industries are industries with a global territory that covers nearly all countries. Recently diverse changes have occurred in the textile and clothing industries based on industrial and economic logic, such as new technology application, rationalization of business administration, and competition; these industries are still one of the most important with respect to employment. For instance, more than twenty million laborers are formally employed in these industries, and other informal laborers are employed in such labor-intensive industries, particularly the clothing industry (Dicken 2004). These industries also have the characteristics of knowledge-intensive industries and possibly improve economic value through knowledge of new materials, fashion, and design development. In addition, these industries have a considerable variety of ranges of consumption and quickening product cycles: recent product cycles of clothing products are shortened to a mere six months (Dunford 2006). Such textile and clothing industries are not only emotional industries, products' value standards depend on consumer needs rather than functions, and high-value industries are able to maximize product values by upgrading quality, diversification, and product individuation of products.

Commodity and value chains of such textile and clothing industries occur as a flow of serial working processes such as "design–manufacture–distribution–sale (see Figure 3)." The first step of this flow is the product development and convention planning stage. Research and development activities and market research that correspond with market demand proceed in this step.

The second step is design and production of trial manufactured goods. Planning new models and designing various clothing items occur during this step. This part of production and design determines production methods, quality standards, manufacture methods, and the necessary expenses of each sector. Commercialization of the trial manufactured goods is decided in this step, and it considers production costs. The decision to commercialize is the utmost problem during this step. The danger of mass production of ready-made clothing items without a contractual relationship with end-users particularly after the 1960s has made this problem more serious. The method of convention has been introduced as the solution of such a danger. The purpose of convention is to ensure that the supply of clothing items meets the needs of consumers by understanding consumers' consumption propensities.[3] Through these conventions the product range is noticeably narrowed by the product choice activities of producers and professional service groups and the effects of media such as newspapers and magazines on consumers' preferences. When the product range is narrowed maximally, retailers decide on the range and size of the product order, which marks the beginning of production.

The third step is manufacturing and production. This step includes facility investment, work group design, recruitment, training, labor management,

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3 "This problem of ex-post social validation is a fundamental feature of market economies but is more acute where products have short life cycles such as fashion and clothing (Dunford 2006, 41)."

and considering relations with suppliers.

The fourth step entails marketing, distribution, and retail. Matters and problems regarding warehousing the proper items by diverse retailers and selecting effective supply management systems occur during this stage. Marketing and distribution activities such as trade fairs, public relations (PR) activities, retailer distribution services, and digital order tracking services proceeded during this step. The risk may be reduced through conventions and efficient distribution systems. However, retailers purchasing products without contracts with end-users still take the most serious risk. Thus, clothing retailers are appropriated the highest portion of profits. “In the case of clothing, for example, most value is appropriated at the end of the chain in retailing (50 percent)” (Duncan 2006, 39).

Such a retailing chain considerably influences the structures and geographic characteristics of clothing industries. The “retailing revolution” which began in U.K. and U.S. during 1960s led to the emergence of specialty clothing retailers (cf. The Gap, The Limited, and Liz Claireborne), and more specialized retailers, focused on the youth market (cf. DKNY, Zara, H & M, and Jigsaw) appeared after the 1990s (Dicken 2004, 329). These changes, which concentrated purchasing power on large retailers, influenced the industrial and spatial structures of the textile and clothing industries: this phenomenon is an important factor that sharpens the dominant structure of the clothing value chain into the consumer-oriented one.

IV. VALUE CHAINS AND NETWORKS OF KOREAN TEXTILE AND CLOTHING FDI FIRMS IN VIETNAM

1. Enterprise type for Korean textile and clothing FDI firms in Vietnam

With respect to GCCs, firms are broadly classified into following four types: brand leader, contractual manufacturer, local supplier, and the independent. In addition, the independent type of firm may be categorized as a “category killer” and other independent types.[4]

[4] Such four types of firms represent the typical categories of global production

Table 1. Business Types and Value Chains of Korean Textile and Clothing FDI Firms in Vietnam

Region	Firm	Invest. Year	Invest. Cost (US $, thousands)	Invest. Type	Em-ployees (KOR: local, persons)	Major Products	Business Type	Value Chains and Spatial Structures						Notes
								R&D and Design	Trial Goods	Mar-keting	Raw Material Input	Manu-facturing	Order	
Ho Chi Minh	Saigon Cap	1999	2,500	Single	5,500	Cap Needle-work	Supplier of Foreign Conglo-merates	HQ	HQ	HQ	n.a.	Vietnam	USA Europe	· OEM→ODM · Division by process
	Hansae Vietnam	2001	1,000	Single	20:1,600	Knit	Contract Supplier	HQ	Subsid-iaries	HQ	Korea, China	Vietnam Nicaragua Guatemala China Indonesia	USA (95%) Europe (5%)	· The largest clothing FDI firm in Vietnam · OEM→ODM · Strategic spatial division to defend market · Division by pro-cess+ market-specific division of labor
	SL Vina	2000	600	Single	1:180	Knit, Jacket, Bag, Shoes	Supplier of Foreign Conglo-merates	Prime Vendor	HQ	HQ	n.a.	Vietnam	USA (60%) Europe (20%) Vietnam (20%)	· Division by process
	GR Vina	1996	NA	Single	2:120	Socks	Supplier of Foreign Conglo-merates	Prime Vendor	HQ	HQ	Korea, China	Vietnam	Japan (100%)	· located at an export free trade zone · Raw material input: local→China · Division by process

Table 1. (continued)

Region	Firm	Invest. Year	Invest. Cost (US $, thousands)	Invest. Type	Em-ployees (KOR: local, persons)	Major Products	Business Type	Value Chains and Spatial Structures						Notes
								R&D and Design	Trial Goods	Mar-keting	Raw Material Input	Manu-facturing	Order	
	CK Vina	2002	1,000	Single	3:550	Sweater	Supplier of Foreign Conglo-merates	Prime Vendor	n.a.	HQ	China (100%)	Vietnam	USA (95%) Korea (5%)	· Division by process · Purchasing raw ma-terial: from Korean firms (100%)
	E-Land	1991	n.a.	Single	5:1,300	Backet, Jacket, Shirt	Contract Supplier	HQ	Subsid-iaries	HQ	n.a.	Vietnam, 1,2,3 China UK, USA, Sriranka	USA Europe Korea	· OEM+ODM · Division by pro-cess+ market-specific division of labor
	Hand Vietko	1993	350	Single	1:52	Kimono, Japanese needle-work	Category Killer	Subsid-iaries	Subsid-iaries	HQ	Japan (100%)	Vietnam	Japan (100%)	· No HQ in South Korea · Manages contracters by dispatch engineers
	Sehwa	1990	20,000	Joint	26:2,000	Knit	Contract Supplier	Prime Vendor	n.a.	HQ	India (50%), Pakistan (20%), China (20%), Korea (10%)	Vietnam	USA (95%)	· Division by process

Table 1. (continued)

Region	Firm	Invest. Year	Invest. Cost (US $, thousands)	Invest. Type	Em-ployees (KOR: local, persons)	Major Products	Business Type	Value Chains and Spatial Structures						Notes
								R&D and Design	Trial Goods	Mar-keting	Raw Material Input	Manu-facturing	Order	
	Choong-nam Vietang	1992	11,000	Joint	5:800	Knit	Business Conglo-merate	HQ	n.a.	Subsid-iaries	Thailand, Africa	Vietnam, Korea HQ	Locan Koeran Firms (100%)	· Under receivership (January 2006) · plans to settle by 2010 · Product-specific division of labor + division by process
Hanoi	Bag Viel	1995	600	Joint	2:200	Clothing, Bag, Print	Supplier of Foreign Conglo-merates	-	HQ	HQ	Korea (100%)	Vietnam 1, 2	USA (80%) Europe (20%)	· Product-specific division of labor + division by process
	Viko Glowin Hanoi	1994	8,000	Single	6:450	Padding, Beddings	Indepen-dent	-	HQ	HQ	Korean HQ (80%)	Vietnam 1, 2	Vietnam (60%) USA (30%) Europe (10%)	· Product-specific division of labor + division by process
	Vina Inter-national	2002	1,900	Single	4:388	Needle-work, Textile printing	Supplier of Foreign Conglo-merates	-	HQ	HQ	-	Vietnam	USA (100%) Local Korean Firms (100%)	· Needlework: USA · Textile printing: local Korean firms · Division by process

Table 1. (continued)

Region	Firm	Invest. Year	Invest. Cost (US $, thousands)	Invest. Type	Em-ployees (KOR: local, persons)	Major Products	Business Type	Value Chains and Spatial Structures						Notes
								R&D and Design	Trial Goods	Mar-keting	Raw Material Input	Manu-facturing	Order	
	Geonyong Trading	1990	n.a.	Single	4:18	Padding, Jacket, Shirt, Under-wear	Supplier of Foreign Conglo-merates	-	-	Subsid-iaries	-	Vietnam (subcon-tract)	USA (100%)	· Sales subsidiary
	Shinwon	2002	5,500	Single	10:1,300	Knit, Clothing	Contract Supplier	HQ			Korean HQ (70%) China (30%)	Vietnam China Guatemala Indonesia Gae-seong	USA (70%) Europe (30%)	·ODM+OBM ·Own brand: Contract manufacture in Korea and subsidiary in Gae-seong ·Spatial division by products ·Division by process + market-specific division of labor
	ABC Garment	2003	420	Single	4:695	Jacket, Trousers	Supplier of Foreign Conglo-merates	Prime Vendo			China (60%) Taiwan (20%) Korea (20%)	Vietnam	USA (85%) Europe (15%)	·No HQ in South Korea

Table 1. (continued)

Region	Firm	Invest. Year	Invest. Cost (US $, thousands)	Invest. Type	Em-ployees (KOR: local, persons)	Major Products	Business Type	Value Chains and Spatial Structures						Notes
								R&D and Design	Trial Goods	Mar-keting	Raw Material Input	Manu-facturing	Order	
	Woorim Vina	2003	700	Single	2:30	Textile	Supplier of Foreign Conglo-merates	-			Korea (70%) Japan (30%)	Vietnam	Local Korean suppliers (70%) Local firms (70%)	·No HQ in South Korea ·Sales to local firms are attributable to the marketing and R&D wirh Japanese partners
	Chilsung Needle-work	2003	700	Single	2:120	Needle-work	Supplier of Foreign Conglo-merates	-			-	Vietnam	USA Korea	·No HQ in South Korea

Source: Local interviews 2006; 2007.

Note: The interviewed firms are categorized as big sized textile and clothing ones in terms of the investment capital (more than 8 billion KRW) by the standard of Korea Small and Medium Business Administration.

Firms' FDI decisions depend on the secure nature of competitive advantages from firm-specific advantages, internalization advantages, and location-specific advantages (Dunning 1980; 2002). Therefore, initial investment firms' activities are categorized into such types, of competitive advantages, which are incorporated into GCCs to create value. From this perspective, the business of Korean FDI firms in Vietnam, possibly create profits in the GCCs of the textile and clothing industries, and are categorized into contract suppliers, small and medium category-killer firms, supplier small and medium Korean business conglomerates, and suppliers of small and medium multinational/foreign business conglomerates, among others (see Table 1).

1) Business conglomerates as contract suppliers

Investments by small and medium sized firms to construct low-cost tall-processing overseas plants were the leading investments related to Korean textile and clothing into Vietnam from 1986 to the late 1990s. In particular, Korean textile and clothing enterprises' investments increased since the late 1990s attributable to the increase in wages in China.

Generally, Korean business conglomerates provide mutual supports and leading functions through group-type organizations, and dominate market governance by interiorizing the normal market (S.C. Lee 2001 2001). Moreover, they accompany their satellite suppliers when they enter foreign markets and minimize their market risks by constructing product networks through vertical integration; however, such a partnership sometimes causes the hollowing-out of the Korean manufacturing industry (S.H. Jung 2000; G. Lee et al. 2005). However, Korean textile and clothing FDI conglomerates in Vietnam show two characteristic aspects that are noticeably different from such general phenomena.

First, most such conglomerates are original development manufacturing (ODM) entitles, such as Hansae CO., Ltd., Sehwa Screen CO., Ltd., and Shinwon Company. Even for E-Land, a representative original brand

networks, or GPN (Ernst and Kim 2002; G. Lee et al. 2005). However, this study applied these types to GCCs because they were observed frequently in the case of GCCs related to Korean textile and clothing FDI firms in Vietnam.

manufacturing (OBM) company, more than 70% of their total products depend on OEMs. Such conglomerates gain the upper hand through market internalization, but the governance of the market and the value chain belongs to foreign conglomerates (distribution or retail conglomerates)—the mother companies. Therefore, although Korean FDI firms are superficially conglomerates, they are actually "contract suppliers" rather than "leading companies" in GCCs.

Second, the partnerships between Korean textile and clothing conglomerates and pre-existing satellite suppliers occur differently because of production processes. Such partnerships are observed for textile industries but not for clothing industries. Such differences occur because the characteristics of the value chains of the two industries differ; the governance of the value chain of clothing industries belongs to the buyers—foreign conglomerates. According to interviews with Woorim Vina Chemical Co., Ltd. and Shinwon Company, subsidiaries are located in Hanoi for following reasons.

> "…The most important reason our company entered Vietnam is the recommendation from Pangrim Co., Ltd., which had pre-existing relations with us. Pangrim invested in Vietnam five years prior to our company, and recommended us to invest in Vietnam because technical limits of Vietnamese textile industries impeded yarn manufacturing and dyeing by chemical dyestuffs, which was supported by us (interview with Dal-Soon Guk, CEO of Woorim Vina Chemical Co., Ltd. on January 25, 2007)."

> "…Most suppliers of retail textile materials for our company are Chinese firms with Hong-Kong headquarters and Guangdong Province factories. Of course, their materials are cheaper than global conglomerates such as Night Line or Militex, compared with the quality. However, because Chinese suppliers are not able to produce certain types of materials yet, we should alternate them with Korean materials. Nevertheless, our company maintains OEM system and ought to purchase Chinese materials when buyers mention certain type of materials and order them. Therefore we cannot afford to recommend that our partners enter foreign countries with us. In addition, they have no reason to enter foreign countries with us because they supply materials to several firms, not only to us (interview with Won-Pil Ki, manager at Shinwon Company, conducted on January 26, 2007)."

2) Category-killer-type small and medium enterprises

A category killer is a firm or industry that has secured competitive advantages in specialized business sectors. Such competitive advantages originate from a global-level own brand or from technological capabilities. Korean textile and clothing FDI firms are not easily category killers because most of them are labor-intensive. However, this type of entity is found among firms that require skilled laborers and produce high economic value, such as *kimono* manufacturers, and technology-intensive firms, such as yarn manufacturing and dyeing. During an interview with the chief executive officer (CEO) of Hand Vietko, a company in Ho Chi Mihn, the suggestion was made that the business type of this firm is based on particular Vietnamese locational advantages.[5]

> "…Recently orders of *kimonos* from Japan have slightly decreased due to the reduced demand in Japan. However, we are satisfying the location in Vietnam. We particularly satisfy with Vietnamese people's outstanding dexterity. It is not easy to recruit skilled laborers with such excellent and hard-to-learn dexterity. In particular, *kimono* needlework requires noticeably high-skilled dexterity. Vietnamese laborers have solved such a problem. Their dexterity is even more complicated than that of Korean people. Work skill training for *kimono* needlework generally requires approximately six months, but Vietnamese laborers master this skill within only three months. Such a remarkable excellent dexterity of Vietnamese laborers is the most important factor of our company's successful product quality management and development. Our company has been able to maintain our sustainable *kimono* market thanks to Vietnamese laborers (interview with Joon-Soo Kim, CEO of Hand Vietko, conducted on February 2006)."

3) Supplier-of-Korean-business-conglomerates-type small and medium firms

Most small and medium FDI firms may reduce their risks by using OEM or ODM suppliers to Korean FDI business conglomerates. This type of business is called a "supplier of Korean business conglomerates." However,

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5 According to the investigation on firms, two more firms demonstrated technological advantages against Vietnamese firms that showed such a business type. However, they were excluded in this category because their advantages were not competitive against foreign competitors.

because business conglomerates play a contract supplier role for Korean textile and clothing FDI firms in Vietnam, small and medium FDI firms engage in relationships with those Korean conglomerates through temporary or irregular subcontracts.[6] Consequently, of the firms being analyzed, only Woorim Vina Chemical is categorized as this type of firm. Woorim Vina Chemical entered Vietnam after its raw material supplier entered the country, as previously noted. Outside of this case, some small and medium firms enter into delivery relations with Korean conglomerates formed as a result of technological dissonance between local subcontract suppliers and prime vendors.

> "…Although we had relations with local firms in the early days, we are dealing with Korean FDI firms now. We should maintain business relations with local firms from a long-term perspective, but such local firms ought to satisfy the requirements of buyers (prime vendors). Our partners must be listed in buyers' lists of outsourcing-available factories. These lists are approved after buyers' firm evaluations. These evaluations, constituted and regulated by buyers, include complicated standards such as compliance with human rights, compliance with labor laws, and facilities. Local Vietnamese firms usually do not satisfy such standards, but most Korean FDI firms meet them. Thus, our major partners are Korean firms (interview with Won-Pil Ki, CEO of Shinwon Company, conducted on January 26 2007)."

4) Supplier-of-foreign-business-conglomerates-type small and medium firms

Firms of this type manufacture their products in Vietnam and deliver them to foreign conglomerates or large distribution firms by OEM or ODM system. Such firms are exposed to unlimited competition from firms worldwide, a weakness that enables foreign firms' global business strategies to critically influence them (G. Lee et al. 2005). The largest number of the entities being analyzed is one of investigation is this type (nine out of 17 firms, see Table 1). Most firms of this type produce final goods and deliver more than 70-80% of their goods to multinational enterprises such as Nike, Reebok, and GAP and

[6] As a matter of fact, most of clothing FDI conglomerates do not have regular subcontract relations with small and medium firms because they have sufficient manufacturing capacity.

large distribution enterprises such as K-Mart and Wal-Mart. These firms also deliver a portion of their goods to European countries and Japan. Although the low wages in Vietnam help them maintain their competitive prices and production expenses in the global clothing market, they are expected to face cost competition with Chinese and Vietnamese firms. Thus industrial and spatial restructuring related to this matter should be argued critically.

5) Independent small and medium firms

Viko Glowin Hanoi Co., Ltd., a Korean firm partly embedded in Vietnam by developing padding and bedding clothing niche markets, is an exemplar independent company. This firm is categorized as independent because its degree of brand recognition is limited to the territory of Vietnam, although it produces its goods for domestic Vietnamese market using OBMs (see Table 1). Because the investment of Korean textile and clothing firms in Vietnam is in the early stage, such independent small and medium firms are not yet commonly observed. However, firms of such a type are expected to increase and developed from the improvement in local embeddedness.

2. Types and characteristics of value chains of Korean textile and clothing FDI firms in Vietnam

Overseas companies probably have various value chains depending on business type. As argued in a previous chapter, contract suppliers and suppliers of foreign business conglomerates are the major business types of Korean textile and clothing FDI firms in Vietnam, despite their variety. Such a phenomenon exists because of the weak brand images of Korean firms and their global competitive strategies as profit-defensive investments based on cost or price competitiveness (S.C. Lee 2001; S.C. Lee et al. 2003). Therefore, OEM systems are the dominant production method for Korean FDI firms, and most are incorporated into global commodity chains of global foreign conglomerates (large distribution companies and retailers). This setup critically influences the industrial and spatial structures of textile and clothing industries and is the significant reason for the consumer-intensive value chain being the dominant governance structure of value chains of clothing industries.

The value chain of Korean textile and clothing FDI firms is composed of "R&D and design → production of trial manufactured goods → marketing → raw material input → manufacturing → order and sale." The structures of such value chains show homogeneous or different characteristics attributable to FDI firms' business types. The difference in the value chains of Korean textile and clothing FDI firms between contract supplier type firms and foreign business conglomerates type firms was noticeable in the R&D, design, production of trial manufactured goods, and manufacturing steps (see Table 2).

First, the differences between those two business types in value chains were observed in the "R&D and design" step. For contract suppliers, South Korea headquarters led by R&D and design, whereas prime vendors, global distribution enterprises, or retailers led the activities of suppliers of foreign business conglomerates. In the case of the former, decision making for design and core subjects of production management were controlled and mediated by foreign business conglomerates; however, recently, such a trend was

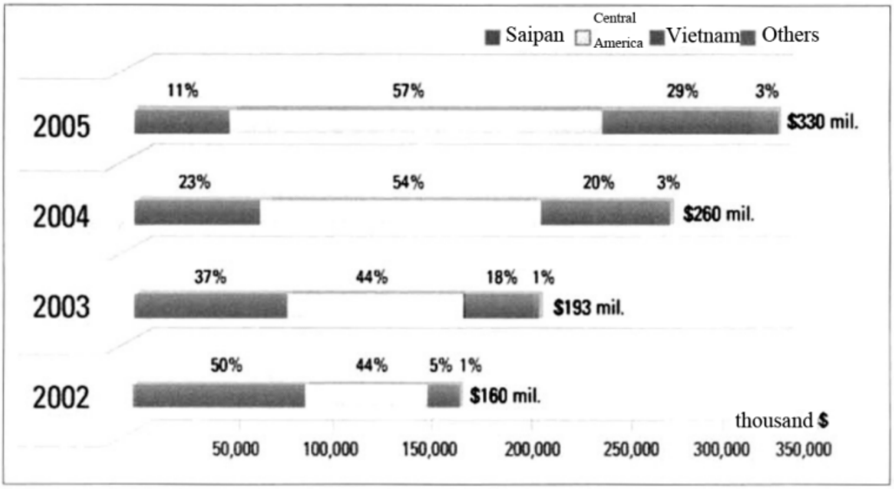
Table 2. Comparison of Steps in Korean Textile and Clothing FDI Firms' Value Chains

Business Types / Value Chains	Contract Supplier Type Value Chains	Supplier of Foreign Business Conglomerates Type Value Chains
R&D and Design	· led by South Korean headquarters · accompanies ODM systems	· led by foreign conglomerates · accompanies OEM systems
Production of Trial Manufactured Goods	· led by local subsidiaries · division of labor type: division by process + market-specific division	· led by South Korean headquarters · division of labor type: division by process
Marketing	· led by South Korean headquarters	
Raw Material Input	· Yarn: India, Pakistan · Textile: China, South Korean headquarters	
Manufacturing	· Discriminative spatial strategies to defend pre-existing markets	· Improving production capacities
Oder and Sale	· Global distribution enterprises and retailers	

Source: Local interviews 2007.

transmitted into the ODM system and the entire process is managed by the headquarters of South Korean firms on the basis of their own technology developments/achievements and related expertise. As Table 2 shows, R&D and design activities tend to be led by South Korean headquarters; foreign conglomerates tend to do nothing but select designs of goods. However, in the latter case, foreign conglomerates decide R&D and design and usually adopt typical OEM systems.

Second, differences between those two business types are observed in the production of trial manufactured goods. Generally, local subsidiaries conducted the production of trial manufactured goods of contract suppliers, whereas South Korea headquarters conducted such activities of suppliers of foreign business conglomerates. The latter accompanies a particular division of labor described as manufacturing in Vietnam and developing trial manufactured goods in South Korea. This latter type, transfers the production function (proceeding) to Vietnam and maintains the planning function in South Korea regardless of high or low value-added enterprises, and is more advanced than product-specific division of labor (G. Lee et al. 2005). In this step, the major sales market is the United States, and securing third countries' exports markets is more important than securing the local Vietnamese market. However, the former shows noticeable differences compare with supplier of foreign business conglomerates: the outward aspects of division of labor are almost the same as the supplier of the foreign business conglomerate type, but the former develops and produces trial manufactured goods in local subsidiaries. Such local production of trial manufactured goods establishes adaptive market development and domestic marketing, and considers the characteristics of local markets and consumers. This production considers local Vietnamese markets in long-term business strategies, although local market share is not a short-term goal, because the major market for contract supplier-type FDI firms in Vietnam is the United States, a third country. In addition, Korean contract supplier type FDI firms seek the business strategy to develop and produce trial manufactured goods in local subsidiaries to efficiently manage local Asian production and the marketing strategies of foreign business conglomerates holding governance in GCCs. Therefore, the production of trial manufactured goods in local subsidiaries accompanies both division of labor by process and market-specific division of labor.



Source: http://www.hansae.com/

Figure 4. Changes in Portion of FDI of Hansae Co.

Third, product-specific division of labor in local subsidiaries is observed in the manufacturing step and is generally adapted by firms that produce plural goods whose production difficulties or values are different, or by firms that produce goods with noticeably differentiated qualities (G. Lee et al. 2005). Contract supplier type FDI firms, such as Hansae, E-Land, and Shinwon Company, show intensified product-specific division of labor in local subsidiaries compared with other types of firms. Such an intensified product-specific division of labor in local subsidiaries is the result of discriminatory spatial strategies that defend pre-existing markets.

For instance, Hansae has maintained its global networks since 1988: it established a knit clothing manufacturing subsidiary in Saipan in 1988, established a Nicaragua subsidiary in 1998, a subsidiary in Ho Chi Minh, Vietnam in 2001, and China and Indonesia subsidiaries in 2008. Such production networks, the result of spatial strategies for approaching the U.S. market that correspond with the changing global market environment, have various determinants of investment by regions. Location determinants of Saipan are attributable to the quarter and tariff benefits of the United States, and the location determinants of Nicaragua are attributable to the geographic accessibility to the United States, low labor costs, and tariff benefits from NAFTA improvements. The location determinants of Vietnam are attributable to the trade agreement between the United States and Vietnam in 2002. Hansae increased the production of its subsidiaries, but since 2001, it has changed its production ratio to defend the U.S. market and correspond with the changing economic environment. For example, production ratio in Saipan decreased from 50% (2002) to 11% (2005), whereas the production ratios in Nicaragua and Vietnam increased from 44% and 5% (2002) to 57% and 29% (2005) respectively (see Figure 4). In contrast, the division of labor is difficult to observe in suppliers of foreign conglomerates type, and the purpose of division of labor for such suppliers is to improve firms' production capacity rather than differentiated spatial strategies.[7]

In summary, value chain structures of Korean textile and clothing FDI firms are generally composed of the following framework: "R&D and design → production of trial manufactured goods → marketing → raw material input → manufacturing → order and sale." Such value chain structures occur in diverse ways according to the business types of FDI firms. For example, contract supplier type FDI firms changed their pre-existing OEM systems to ODM systems through R&D and design development in South Korean headquarters and producing trial manufactured goods in local Vietnamese subsidiaries, improved their positions in GCCs differentiating their subsidiary locations with discriminative spatial strategies to defend pre-existing markets, and achieved multi-nationalization through market-specific division of labor between headquarters and subsidiaries. In contrast, pre-existing OEM systems are maintained through suppliers of foreign business conglomerate types, although this type also proceeds the division of labor by process. Such an example shows the diverse characteristics of value chains attributable to FDI firms' business types.

However, the two types are ultimately incorporated into the value creation networks of global distribution companies and retailers, considering the fact that planning and business activities in R&D and design, producing of trial manufactured goods, marketing, and manufacturing are determined by them. In other words, consumer-driven value chain governance is the

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7 An interview with Dong-Hwan Park, CEO of Viko Glowin Hanoi Co., Ltd.

dominant type of value chain in Korean textile and clothing FDI firms in Vietnam. Such a governance type, formed in consumer-dominant networks in power relations, is typical for global textile and clothing networks. Thus, the characteristics of these two types of value chains are not different in transitional Vietnamese economies. Therefore, the typical GCC perspective has noticeable limits to understanding the characteristics of Korean textile and clothing FDI firms in transitional economies.

To overcome such limits, social relations between actors engaged in power relations, that determine the distribution and flow of value chains, should be considered. In other words, the characteristics of Korean textile and clothing FDI firms under transitional Vietnamese economies may be understood by analyzing the social relations between FDI firms, and the embedded institutional dynamics. The next paragraph analyzes the institutionalization of informal relations attributable to firm activities related to the Vietnamese Soviet legacy and local governments.

3. Characteristics of Korean textile and clothing FDI firms in Vietnam

The institutions and networks of transitional Vietnamese economies aim to address the interaction between new and pre-existing institutions and the restructuring of networks, with actual real results being classified as insulating new institutions and the endurance of pre-existing networks. Therefore, although new capitalist institutions are introduced, pre-existing networks that were developed through a strong Soviet legacy endure. In other words, Korean FDI firms in Vietnam, usually incorporated into pre-existing restructured networks, correspond to a newly formed hybrid system, indicating that unstable pre-existing institutions continue to have the characteristic of “over or unforced-embeddedness” rather than new social relations being created.

This study analyzes networks of Korean FDI firms to understand the manner in which these firms are set in Vietnamese production networks. For this analysis, two major factors are considered. First, what are the factors of the Soviet legacy in transitional Vietnamese economies related to the value chains of Korean textile and clothing FDI firms? Second, how are networks of Korean FDI firms incorporated into pre-existing networks? An analysis of such questions may contribute to understanding the network identities of Korean textile and clothing FDI firms, the construction of more efficient networks, and introduction of the methods of international cooperation with Vietnam.

"Bureaucratic centralism" and non-commodity exchanges based on reciprocal relations are examples of the Soviet legacy in transitional Vietnamese economies. The pre-Doi Moi Vietnamese economic administrative system may be characterized as "bureaucratic centralism." In this system, administrative procedures required voluminous reports and long waiting times to pass several bureaucratic procedures. Firms could not retain their necessary raw materials without the cooperation and assistance of senior officials who managed the flow of such materials. In other words, state-owned enterprises had no control over production or purchases, and the State Planning Commission administrated all processes. Therefore, state agency economic officials have unilateral power and are able to improve or depress firms' capacities (Porter 1993, 128-129). Such power leads to gift donations to senior officials from administrators to secure necessary raw materials, a mechanism that become part of their informal relations.

For example, according to Porter (1993, 129), firms with cordial relations with economic officials were usually recommended as the best companies although they actually produced low-quality goods, and producers of high-quality goods could not achieve their manufacturing plans without such cordial relations with economic officials. Moreover, certain state-owned enterprises hid their real production capacities to minimize the portion delivered to the government, and dealings with government officials.

Case studies indicated that relations between firms and the government in Vietnamese socialist institutions remained after the Doi Moi.[8] An interview with the Shinwon Company, a Korean textile and clothing FDI firm with a subsidiary in Hanoi, indicated the relations between Korean FDI firms and Vietnamese local governments based on the Vietnamese Soviet legacy and bureaucratic centralism.

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8 In interviews, all 17 case firms located in Ho Chi Minh and Hanoi, Vietnam, emphasized informal ties with local governments (agencies).

> "…We had neither continuing relations with local governments, nor received any benefit from them. However, like other socialist countries, human networks are significantly important in Vietnam. Reciprocal ties with senior officials are almost panaceas. Because their (senior officials') own standards are so complicated and complex, no firm can avoid sanctions based on such standards. In other words, no firm can conduct proceed business activities by adjusting their standards or regulations completely. Therefore, we usually negotiate with government officials after conducting our business matters, although they are violations of regulations. Consequently, friendly individual relations are extremely important (interview with Won-Pil Ki, manager of Shinwon Company, conducted on January 26, 2007)."

This interview shows the profound remnants of bureaucratic centralism, a characteristic of socialist institutions: such remnants have a noticeable dominion on the business activities of Korean textile and clothing FDI firms. Moreover, Korean FDI firms need to construct reciprocal relations with local officials to correspond with the bureaucratic centralism of the Vietnamese government. Essentially, the construction of reciprocal relations is a strategy to efficiently seat the remnants of Soviet legacy to the institutions and networks of bureaucratic centralism. As a result, Korean textile and clothing FDI firms became unintentionally over-embedded in Vietnamese investment regions and their institutions. The reasons why Korean FDI firms develop reciprocal relationships with local governments are classified into the following two categories.

The first reason is the improvement of local governments' autonomy with respect to FDI. The Communist Party of Vietnam transferred all decision-making rights related to FDI activities to local governments (agencies) to improve their foreign economic relations at the local level. In the case of local industrial parks, even all rights related to FDI firms are transferred to the Industrial Parks Management Committee and foreign investors are offered incentives to manage FDI activities more efficiently and flexibly.[9]

In industrial parks, many FDI firms locate, rentals are expensive, the

[9] According to *Development and Planning of Industrial Park to 2010* in Vietnam, published by the Ministry of Planning and Investment (Vietnam), 135 industrial parks are located all over Vietnam (August 2006). Of those 185 industrial parks, 81 are in operation and the other 54 are under construction (KOTRA 2006, 284).

Table 3. Comparison of FDI Firms' Locations in Vietnam: Industrial Parks and General Areas

	Government Agencies	Merits	Demerits
Industrial Parks	Management committees	· Infrastructure maintenance · Licensing agency procedures · Good logistics environments	· Expensive land rentals · Maintenance cost burden
General Areas	Local commissariats	· Cheap land rentals · Investment incentive benefits (depending on negotiations with industrial parks) · Easy staffing	· Lack of infrastructure · Lack of licensing agency · Poor logistics environment · Burden of land compensation

Source: Kotra 2006, 285.

maintenance cost burden is high, and wages are higher than in general areas (see Table 3). Nevertheless, the Industrial Parks Management Committee engaged in FDI firms' licensing procedures and various business matters by proxy for their benefit as competition to attract foreign investments into each constructing industrial park intensified and management of industrial parks was transferred to the committee. Moreover, the Industrial Parks Management Committee strengthened the attraction of FDI firms by offering them income tax, land rent, and power supply benefits.[10] However, as FDI burgeoned in industrial parks located in the suburbs of Hanoi and Ho Chi Minh—areas in which Korean FDI firms are heavily located—the Industrial Parks Management Committee is discontinuing its offer of benefits, and Korean FDI firms are seriously considering improving reciprocal relations with the committee to maintain such benefits.[11]

Relations with the Industrial Parks Management Committee, a government agency are still important, although transfer of business to local

10 Although power supply is included in the intensive for FDI firms, most industrial parks do not have sufficient power to supply all of the power required by firms. Therefore, sufficient power supply is regarded to as a benefit offered by Industrial Parks Management Committee.

11 Source: interview with Yeong-bo Hwang, CEO of Ace Garment, located in Tỉnh Vĩnh Phúc Province near Hanoi.

committees offered the merit of a more flexible business administration. Therefore, the identity of pre-existing Soviet legacy and its networks still remain even in Korean FDI firms despite the outward changes from institutional transitions.

The second reason is to reduce the quasi-tax burden imposed on FDI firms. Local governments create and decide on such a quasi-tax. Therefore, informal relations with local officials may play a significant role in reducing such a quasi-tax burden, which indicates that the legacy of reciprocal relations, based on bureaucratic centralism has a noticeable influence on FDI firms. An interview with Bag Viel indicates such relations.

> "…I believe that quasi-taxes exist everywhere. However, Vietnamese government requires too much amount of quasi-tax. If a firm pay whole amount of such a quasi-tax, it would face a serious business difficulty. Therefore firms need to construct individual (informal) relations with local governments. A serious problem is that quasi taxes in here (Vietnam) are related to each, nearly all official departments, different from Russia or Guatemala where quasi-taxes are managed by particular departments. Good individual relations generally grant reciprocal relations such as quasi-tax reduction, because this quasi-tax can be imposed, reduced, or even exempted by local government's own decision. As a matter of fact, we maintain reciprocal relations with Vietnamese senior officials by donating gifts to each department. Vietnamese local officials regard this as normal. I believe this is the remnant of past practices (interview with Jeong-hyeon Jo, a deputy general manager of Bag Viel on January 26, 2007)."

Generally, such reciprocal relations are created in the form of a gift donation such as bribes, although a past casual relationship is a minor cause. Such a gift donation causes the reciprocal relationships to be non-commodity exchanges and is different from capitalistic exchanges. Gifts do not assume the same exchange values of exchanged goods and, thus, have no rights to claim for shortages: for this reason, gifts cannot be commodities. An exchange of commodities assumes concurrency and equivalence, different from other types of exchanges (Smith 2002, 245; J.K. Lee 2005, 244-245). Such importance of reciprocal relations indicates that transitional Vietnamese economies have characteristics of non-capitalistic, non-market, and nonformal economies, and reflects the tacit institutionalization of Vietnamese Soviet legacy; Korean FDI firms in Vietnam are unintentionally embedded in such tacit institutionalization.

V. CONCLUSION

This study investigated the following three aspects to analyze the realities and identities of networks of Korean FDI firms in Vietnam: (1) major types of business, (2) value chains, and (3) types and characteristics of network on the two levels. The main results of this study are as follows.

First, Korean textile and clothing FDI firms in Vietnam show various business types, with the mainstream ones being contractual manufacturer and foreign major companies cooperation type. Such types occur because of the weak private brand images of Korean FDI firms and their profit-defensive investment strategies based on cost or price competitiveness (S.C. Lee 2001; S.C. Lee et al. 2003). Consequently, most of Korean FDI firms incorporated into GCCs of global foreign enterprises become OEM suppliers. Such a pattern influences the industrial and spatial structures of the textile and clothing industries. In addition, this decisive factor makes consumer-oriented the dominant governance structure of clothing industries' value chains.

Second, the value chain of Korean textile and clothing FDI firms in Vietnam is generally explained using the following structure: "R&D and design → production of trial manufactured goods → marketing → raw material input → manufacturing → order and sale." In such a value chain structures, Korean FDI firms show different characteristics because of their business types. (1) Korean FDI firms changed their pre-existing OEM systems to ODM systems through R&D and design planning in South Korea headquarters and by producing trial manufactured goods in local subsidiaries. They also improved their positions in GCCs by geographically discriminating subsidiary locations through discriminative spatial strategies, a method to defend pre-existing markets. Moreover, they achieved noticeable multi-nationalization through the division of labor between headquarters and subsidiaries. (2) In contrast, although suppliers of foreign business conglomerate type firms also achieved the division of labor through the

R&D and design processes in foreign business conglomerates, by producing trial manufactured goods in Korean headquarters and by manufacturing in subsidiaries, pre-existing OEM systems were maintained, thus displaying the different characteristics of value chains according to the business types of FDI firms.

However, these two types are essentially incorporated into the value-creating network strategies of global distribution conglomerates and retailers, considering that all planning and business activities in R&D and design, production of trial manufactured goods, marketing, and manufacturing are decided by such global enterprises. In other words, consumer-driven value chain governance is the dominant value chain type of Korean textile and clothing FDI firms in Vietnam. Such a governance type, formed as consumers dominate the power relations networks, is a typical network in the textile and clothing industries. Therefore, those two types of value chains are not the result of transitional Vietnamese economies, indicating the limits of the typical GCC perspective in understanding the characteristics of Korean textile and clothing FDI firms in transitional Vietnamese economies.

Third, the social relations between actors in power relations that determine the distribution and flows of value chains should be considered to overcome such limits. Considering such limits, this study analyzed the characteristics of the networks of Korean textile and clothing FDI firms in transitional Vietnamese economies, focusing on the social relations of FDI firms' embedded institutional dynamics. The results indicated the profound bureaucratic centralism and a Vietnamese Soviet legacy in the networks of Korean textile and clothing FDI firms; this bureaucratic centralism has a noticeable dominion toward the omnidirectional area of Korean textile and clothing FDI firms' business activities. In addition, Korean FDI firms created reciprocal relations with local officials to comply with Vietnamese bureaucratic centralism. Such reciprocal relations imply the tacit institutionalization of the Vietnamese Soviet legacy, and Korean FDI firms' networks unintentionally embedded such tacit institutionalization.

Based on these results, this study suggests the following three implications.

First, the analysis of global product chains of Korean textile and clothing FDI firms of this study probably suggests strategic foundations and methods to improve national competitiveness by understanding the positions of

Korean textile and clothing firms in the dimension of the international division of labor. Korean textile and clothing FDI firms upgraded their value chains by investing in design and high value, and are improving their international competitiveness. However, such value chains are still dominated by global distribution conglomerates and retailers, and are continuously receiving threats from the catch-up activities of developing countries and high technologies of developed countries. Therefore, Korean textile and clothing firms need to transform their business into types to category killers.

Second, the types of significant business environments that cause strategic changes in Korean FDI firms are expected to be drawn by analyzing how labor-intensive Korean textile and clothing FDI firms seat on social relations or networks of the Vietnamese economy, a result of Vietnamese Soviet legacy and the institutional dynamics of transitional economies. Moreover, improving the performance of labor-intensive small and medium firms, developing more efficient investment policies, and constructing more concrete and successful international cooperation relations with Vietnam probably result from such an effort. As a result of this study, the characteristics of the institutions and networks of transitional Vietnamese economies were the insulation of new institutions and the maintenance of pre-existing networks. In other words, although new capitalist institutions were introduced, pre-existing Soviet legacy still remains and continues to develop. Therefore, Korean FDI firms need to prepare and develop spatial strategies to correspond with such institutional dynamics and networks of transitional Vietnamese economies.

Third, analyzing changes in institutions and policies during the noticeable burgeoning of third-world countries such as Vietnam through dynamic perspectives based on the local and institutional embeddedness of FDI firms is expected to contribute to model research on cooperation with third-world countries. In addition, such an effort probably suggests cooperation models and counter-strategies with North Korea at the firm level.

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