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Strengthening International Competitiveness Using the Korean Textile and Clothing Industries as an Example

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I . Introduction

In preparation for the global free trade movements in 2005 for the textile and clothing industries, Korea must strengthen the competitiveness of its textile and clothing industries and expand its exports of textile and clothing products to the world market, particularly to the US market, the world's largest single market.

Although the growth rate of the US market is low, it continues to grow and the share of imports for the total US market is relatively high. The market share of Korean textile and clothing products in the US market was 4.4 percent in 2000, and it is expected to increase greatly in the future if Korea can penetrate the US market more aggressively. More specifically, in the textile industry, Korea's share in the US textile market has continuously grown and recorded 10.3 percent in 2000, second to Canada. On the other hand, in the clothing industry, due to the rapid increase in exports from countries such as Mexico, Canada, the Caribbean basin countries, and Southeast Asian countries, Korea's share in the US clothing market has declined since the mid-1990s and reached only 3.8 percent in the year 2000.

The objective of this paper is to analyze the global free trade movements in the textile and clothing industries, focusing on the aspect of international competitiveness of Korean textile and clothing industries, in addition to suggesting implications for streng-

thening international competitiveness of those industries and expanding the share of exports of textile and clothing products in the world market, particularly in the US market, the world's largest single market. Section II of this paper will provide an overview of recent changes in the world trade environment surrounding textile and clothing products. Section III shall attempt to offer specific ways of strengthening the international competitiveness of Korean textile and clothing industries. Finally, Section IV will summarize the discussions.

II. Changes in the World Trade Environment for the Textile and Clothing Industries

1. A New Mode of Global Competition

Since the late 1970s and early 1980s, slow growth coupled with market segmentation in advanced industrial countries has allowed both mass-market production and more specialized, higher value-added production in the textile and clothing industries. This has had an effect on both production and distribution, as well as on the relationship between producers and distributors.

With respect to the production of mass-market textiles, marketing strategies for mass-market textiles which were once based on producing more specialized products, have become based on product differentiation and quick response to consumer demand and fashion changes.

With respect to distribution, large retailers such as Marks and Spencer, Sears, Wards, and J.C. Penny have played a major role in organizing the trade in mass-market textile and clothing products through subcontracting to manufacturers at home and abroad for products that they market under their own labels. This has provided many Asian countries such as Korea, Hong Kong and Taiwan with access to markets in North America and Europe. As competition rose, smaller manufacturers were gradually placed at a bargaining disadvantage and larger firms

began to increase their market share through mergers and acquisitions (M&A). Moreover, larger firms have also increased the use of designer labels and have developed franchising to expand their market shares in both specialized and mass-produced textile and clothing products. This process seems to place the smaller firms of Asian countries at a disadvantage, since many of these smaller Asian firms have depended upon subcontracting from the advanced industrial countries to gain access to product designs and to secure market access.¹⁾

In the 1990s, product life cycles of textile and clothing products were shortened compared to the past, due to changing consumer lifestyles and buying patterns, together with more intensified competition in the global market for textile and clothing products. Hence, retailers have intensified efforts to provide consumers with new ideas, better quality and lower prices. This has, in turn, added greater pressure on manufacturers to provide new product designs and marketing techniques as well as new product developments, short lead times, lower prices, superior technical performance or innovative fashionable merchandise, and superior service.

This change in the textile and clothing industries has inevitably allowed manufacturers to concentrate their resources on the core competencies, and improve their industrial competitiveness through restructuring and re-engineering processes, such as changing their marketing strategies, diversifying their products, expanding into global markets, and moving closer to consumers.

In other words, manufacturers have downsized production in favor of foreign subcontracting to reduce manufacturing costs

1) See Mytelka (1991).

and increase production flexibility. They have also acquired new brands or provided a broader range of products to consumers through mergers and acquisitions (M&A), made heavy investments for research and development (R&D), and reconfigured their supply chains.

For instance, the Russell Corporation and Fruit of the Loom have set up plants in Western Europe to develop close ties with customers in that region in addition to providing quick-response service. More prime examples are Hartmarx and Sara Lee acquiring several major European fashion labels. Many US clothing firms have utilized licensing as a means of rapid market penetration.²⁾

2. WTO Agreement on Textiles and Clothing³⁾

The world trade in textile and clothing products had been largely governed by the terms of the 1974 Multi-Fiber Arrangement (MFA) and predecessor agreements, which allowed the use of quotas without requiring any compensation. However, on January 1, 1995, the Agreement on Textiles and Clothing (ATC) entered into force and replaced the MFA. The ATC eliminates the quotas imposed by four WTO members: the United States, the EU, Canada, and Norway. It integrates textile and clothing products completely into the WTO regime over a 10-year transition period ending on January 1, 2005.

2) See Kliduff (2001).

3) See U.S. International Trade Commission (1999), pp. 8-14~8-15.

Under the ATC, quotas will be eliminated through two mechanisms: first, the integration of products into the WTO regime, including the elimination of quotas on those products; and, second, the acceleration of growth rates for increasing quotas still in effect during the transition period on products not yet incorporated into the WTO regime. According to the ATC, WTO members integrated 16 percent of their textile and clothing trade⁴⁾ into the WTO regime on January 1, 1995, an increase of 17 percent on January 1, 1998, another 18 percent in 2002, and finally the remaining 49 percent on January 1, 2005.

During the transition period, the ATC allows WTO members to set new quotas on imports of articles not yet integrated into the WTO regime when those imports are considered to cause or threaten serious damage to a domestic industry. These quotas may remain in place for three years during the transition period or until the articles are integrated into the WTO regime.

4) Based on their respective 1990 import volumes.

III. Strengthening International Competitiveness

1. Restructuring and Re-engineering

Restructuring

With free trade movements taking effect in the textile and clothing industries, it is expected that global market competition will be more intensified. Accordingly, the Korean textile and clothing industries have to concentrate their resources on the core competencies, and improve their industrial competitiveness through restructuring and re-engineering, which advanced countries, such as the United States, have already begun. In other words, for the Korean textile and clothing industries to survive in the ever-changing world markets, reducing unprofitable sectors and expanding the competitive sectors through restructuring will likely be their only alternative.

For this purpose, mergers and acquisitions (M&A) among business firms, downsizing businesses, closing out businesses, and transferring production facilities to foreign countries should be carried out carefully and properly. In particular, those business sectors that are losing their competitiveness should be reduced in size or transferred to foreign countries, thereby focusing on the core competencies of their business. In addition, the textile and clothing industries should expand their businesses into

promising new sectors such as sportswear, or increase the sales of their products by establishing distribution networks, internally and externally. Coupled with such efforts, it is necessary to take over new product brands through mergers and acquisitions or to spread fashion risks.

For example, the Jones Apparel Group in the US took over Nine West, a footwear retailer, and the McNaughton Apparel Group, an apparel maker, in 1999 and 2000, respectively. Also, the VF Corporation in the US had bought The North Face, an outdoor apparel and sporting goods maker, as well as rights to the Gitano brand of jeans wear from the struggling company Fruit of the Loom. In addition, VF Corporation acquired Eastpak, a backpack manufacturer and H.I.S., a leading brand of women's jeans in Germany. In mid-2000 Sara Lee acquired Courtaulds Textiles, a leading UK textile and apparel group. However, jeans wear maker Bugle Boy, sportswear manufacturer C L Fashions, and underwear maker Ithaca Industries have all closed their production facilities. In 2001, Warnaco, a leading manufacturer of name-brand apparel, including Calvin Klein and Speedo, filed for Chapter 11 bankruptcy due to declining revenues and a high debt burden.⁵⁾

Re-engineering

Faced with rapidly changing market conditions in the textile and clothing industries, new product designs and marketing techniques as well as new product should be developed through the re-engineering of business processes. In recent years, product

5) See Kilduff (2001), pp. 193~194.

life cycles of textiles and clothing products as mentioned before, are being shortened compared to the past due to changing consumer lifestyles and buying patterns, together with intense competition in the global market for textiles and clothing.

Accordingly, the Korean textile and clothing industries need to enhance their industrial competitiveness through changing the way they develop and deliver products to consumers by re-engineering their business processes. To this end, Korean textile and clothing firms should re-engineer their business processes so as to manufacture products in very short lead times. This can be achieved by improving the speed and quality of point-of-sale feedback and also through more flexible production systems, in addition to other improvements.

Furthermore, business networks should be redesigned between firms in the supply chain by applying new information technologies, re-configuring business processes substantially, and by examining inter-firm relationships. Also, Korean firms, if necessary, should relocate their manufacturing activities in order to gain access to lower labor costs in foreign countries, and it is preferable for large firms to downsize or close their productions in favor of managing an international network of sub-contractors. In doing so, Korean textile and clothing firms must create advantages in the form of lower costs, reduced capital requirements and greater flexibility in meeting fashion changes, which, in turn, will allow them to concentrate on the new core competencies, product development, the supply chain management and brand management.⁶⁾

6) See Kliduff (2001).

2. Product Diversification and High Value-added

Confronted with changing consumer lifestyles, buying patterns, and a rapid change in global market conditions in line with the free trade movement in the textile and clothing industries, it is highly recommended that textile and clothing products are diversified and have a higher value-added. In other words, Korean textile and clothing firms need to spread their fashion risks, producing and developing new prospective merchandises. Moreover, products should be diversified and have a higher value-added so that the manufacturing firms can spread their fashion risks, exploit new growth segments, provide a wide range of products, and meet the increasing requirements from the retail firms. More specifically, consumers have a desire for self-expression and individuality as well as a casual nature, and this tendency leads to product diversification on the supply side. In particular, because body size and shape of consumers are becoming more diverse, manufacturers are increasingly under pressure to diversify their products or they may be forced to exit the market.

On the other hand, with free trade movement in the textile and clothing industries, competition among nations in the global market is expected to intensify and this will bring an overall decline in the prices of textile and clothing products, which will lead to an increase in the number of anti-dumping suits by advanced countries. Therefore, to survive fierce competition in the world market, Korean firms need to diversify and increase the value-added of their manufactured products. To this end, it is necessary for the Korean firms to pursue the development of

high quality fabrics, the establishment of a quick response system and strategic flexible production, the upgrading of human resource capabilities, and the further development of the textile machine industry.

Development of High Quality Fabrics

Korean textile and clothing industries are importing fabrics of high quality from foreign countries to manufacture the apparel of superior technical performance. Therefore, it is necessary to develop such high quality fabrics through research and development.

In this regard, Korean firms will have to improve their technology for combining chemical fibers with natural fibers and develop new technologies in the area of chemical fibers. Together with this, it is also necessary to develop high technology fiber materials, which are very strong, elastic and heat-resistant. Additionally, dye processing or coloring technologies have to be further developed to meet consumer's tastes and preference for colors. It is widely recognized that Korea's dyeing technology is well behind that of Italy and Japan.

On the other hand, to improve the quality of products, it is necessary to adopt the total quality management (TQM), conduct process management on the basis of statistical data, and educate the labor force.

Establishment of a Quick Response System

To increase the value-added of textile and clothing products, it is necessary to establish a flexible system to respond quickly to changes in consumer tastes. The Korean textile and clothing industries have difficulties in responding quickly to changes in

consumer tastes because the manufacturing processes are not interrelated. For instance, with the introduction of a quick response system in the mid-1980s in the United States, the textile and clothing firms were able to shorten the lead times and gather information on consumer tastes and buying patterns easily. To this end, it is necessary to enhance Korean capabilities such as demand forecasting, inventory replenishment, and manufacturing control through IT-enabled equipment and management systems.

Establishment of a Strategic Flexible Production System

It is vital to adopt a strategic flexible production system, which uses a selectively lean production system, effective for mass production, or an agile production system, effective for the production of diversified products on a small scale, as a means to respond to changes in consumer tastes and to reduce manufacturing costs.

In the United States, a system is now under development, in which consumers can choose their favorite colors or designs using the internet, after which a list of required parts and materials is compiled, it is then sent to the sub-contractors, and the finished product is delivered immediately to consumers.

It would be best for Korean industries to benchmark the strategic flexible production systems of advanced nations and develop their own effective systems. Because this new production system requires a lot of time and capital investment, much support from related industries, academic fields, and the government, is necessary.

Upgrading of Human Resource Capabilities

Upgrading human resource capabilities is crucial when increasing the value-added of Korean products. In recent years, the major changes in consumer demands and technology strategies which have swept through the global textile and clothing industries have changed the skills needed by the labor force. To meet these changes, manufacturers have made heavy investments in broadening and deepening their skill and technical base through technical training and education as well as through recruiting workers with new skills.

The Korean textile and clothing industries, lack a skilled workforce in the planning and design of products, and in dyeing, sewing, and finishing. In particular, Korea lacks experienced designers in the chemical fabric field, although Korea has relatively good international competitiveness compared with other segments of the textile and clothing industries.

In Italy, however, the processes of product planning and design are conducted by specialized technicians and creative designers, which enable Italian suppliers to create finished products of superior quality in the world market.

Development of the Textile Machine Industry

While advanced countries such as Italy, Germany, and Japan have been developing textile and clothing industries into high value-added industries on the basis of their competitive textile machine industries, the Korean textile and clothing industries have imported most of their textile machines from abroad. This is because most textile firms, which are buyers of textile

machines, have preferred imported textile machines over machines produced in Korea, which, in turn, has weakened the competitiveness of the Korean textile machine industry.

In advanced industrial countries, where industries are already highly automated, electronic controls in the spinning, weaving, and dyeing branches of the machine industry have improved its diagnostic and monitoring capabilities and have reduced the downtime when models, patterns, or colors have changed or threads have broken, which in turn has provided major cost savings through reduced labor time and energy consumption, less material usage, and improved product quality.

For the development of the textile machine industry in Korea, it is necessary that the standardization of parts and components of the textile machines and the specialization of related parts and components firms should be pursued. In addition, Korean textile machine firms need to initiate formal advertising in their trade literature, such as sending printed information about their products to textile firms worldwide and making personal visits to customers via sales personnel and overseas agents.

Moreover, for the sales promotion of new textile machines, it is extremely important that machine firms participate in international exhibitions of textile machines as a means of showing their new machines.

3. Strengthening Export Marketing

To increase the exports of Korean textile and clothing products

in the world market, aggressive and systematic export marketing strategies are necessary, especially for effective marketing in the US market. The Korean textile and clothing industries have experienced a continuous increase in exports to the US market. However, the rapid growth and quality improvements of the textile and clothing industries in China and Mexico have caused a decline in the share of Korean textile and clothing products in the US market. In addition, the global medium-priced clothing markets in which Korean firms have had competitiveness are expected to suffer from a decline in consumer demand for the time being. Consequently, the heavy pressure to lower the prices of medium-priced clothing products are put on the clothing manufacturers, which in turn force the manufacturers to suffer from low profitability.

In order to increase the exports of textile and clothing products, it is necessary to link converters, manufacturers and fabric sewing enterprises together, and through this network they become effective export-oriented enterprises. Along with this, in the long-term, the Korean textile and clothing industries have to develop and increase their own brands including the common brands for small and medium-sized enterprises, even though OEM will be depended on more in the short-term.

With regard to export marketing strategies, the industries have to adopt competitive strategies of strengthening export marketing for the North American and European countries as well as for the neighboring China and Japan.

With respect to the clothing industry, Korean firms will have to focus on manufacturing clothing products of high quality and high price, rather than finding means of reducing their manufac-

turing costs, because profit margins take place in the stages of design, marketing, distribution and retail sales rather than through the stage of manufacturing itself. In particular, in light of increasing wage levels in the long-term of the Korean clothing industry, the competitiveness of the industry can be maintained only when clothing products of high quality and high price are manufactured and then exported to the newly developed niche markets in addition to the existing export markets such as the US, Japan and China. This is because developing countries including China have recently been expanding their production capacity in the textile and clothing industries, which in turn can make medium to low-priced products manufactured in those developing countries more price competitive in the world market.

Intensification of Marketing Strategies

As the world economy enters the digital era, the marketing environments surrounding the textile and clothing industries will be changed in several ways. First, consumers' price sensitivity will be increased. The reason is that the Internet has made it possible for consumers to search for lower-priced products and to diminish the risks associated with purchasing the products of less recognized brands.

Second, the switching costs which usually occur when consumers switch to other brands may drop significantly, due to the ability of the internet to eliminate the need for travel.

Third, price competition among firms will become more fierce owing a lot to new Internet-based textile and clothing firms, and location in relation to textile and clothing marketing will be less important in the modern world where most people turn to

the internet.

Finally, the Internet will enhance the flexibility of price decisions on the part of the manufacturers by enabling them to change product prices in response to changes in consumer demand on a real time basis.

In short, marketing strategies for the Korean textile and clothing industries have to focus on pricing strategies for products that are exported. Together with this, domestic manufacturers should strengthen their relationship with their customers, emphasizing the need for satisfying their customers' demands quickly. To this end, it is important for domestic manufacturers to seize market opportunities and analyze distribution channels, and to understand and satisfy customer demands regarding products, prices and services.

Marketing Strategies for the US Textile and Clothing Markets

It would be effective for Korean manufacturers to take account of the following facts when establishing export marketing strategies for the US market. Because the profitability or business risk of the textile and clothing markets in the US varies widely according to what items the manufacturers sell, it is wise for Korean enterprises to conduct market research before entering the US market. In other words, after analyzing opportunities and risks in relation to their entrance to the US market and determining the target items, it is necessary for the Korean exporters to establish an export marketing strategy. Moreover, for the effective implementation of this strategy, the organizational changes in the manufacturing enterprises have to be followed

and the strategies for the textile market and for the clothing market should be different from each other.

Subdivision of the Entire US market into Several Small Markets

For effective penetration into the US market, Korean enterprises need to subdivide the entire US market into several small markets according to the characteristics of the market such as age, ethnicity and income level of consumers, and then specific target markets should be determined. Because the Hispanic population, among ethnic minorities, was the fastest-growing in the last decade, overtaking the black population as the second largest ethnic group in the US, and because the consumption of women's and girls' clothing products has grown faster than those of men's and boys' clothing products in recent years, Korean exporters to the US should focus on these target markets by establishing separate marketing strategies for each.⁷⁾

Diversification of Marketing Strategies and Distribution Channels

When considering the continuous change in fashion and fierce price competition in the US textile and clothing markets as a whole, Korean textile and clothing manufacturers require the diversification of their marketing strategies and distribution channels, as well as the reinforcement of customer relationship management (CRM). In particular, in order to maintain the quality of products and increase export volume, it is necessary for

7) See Kliduff (2001).

manufacturers to establish their own distribution channels in the US market in cooperation with local distributors.

Recently, in the US clothing market, mass merchants, off-price retailers, and speciality stores have witnessed rapid growth in sales, while department stores and traditional chain stores have experienced declines. Therefore, Korean exporters should reinforce marketing toward these mass merchandisers.

Establishment of Logistics Centers in the US

To promote exports to the US market, it is necessary to analyze the logistics system of the US. In other words, Korean enterprises need to be able to transport and sell textile and clothing products to any place in the US, with greater reliability, at relatively little cost and with no time lag. At the same time, Korean enterprises should improve their logistics services in terms of storage, loading and unloading, packing and information processing.

Because the exported products enter the US market through seven main customs offices spread over the US, it is more effective for Korean exporting firms to establish their logistics centers around those seven regions. In particular, with respect to the sewing industry of which the processing centers are located in Los Angeles and the northeast of the US, Korean firms need to establish their logistics centers around these regions.

4. Expanding the Advertising Capacity and Exhibiting Korean Products

In order to increase the exports of textile and clothing products continuously, Korean textile and clothing industries have to expand advertising and exhibit their products by participating in international exhibitions or possibly establishing several permanent exhibition halls in Korea. For instance, Italy, France, Germany and many other advanced countries advertise their textile and clothing products to foreign buyers by holding international exhibitions. In particular, it is well known that Italy holds international exhibitions for fabrics every year.

In addition, it is necessary to hold road shows as a means of advertising Korean products in international fashion centers such as Paris, New York and Milan annually.

Table 1. Seven Customs Offices in the USA

Region	Main Harbor	Location
Northeast	Boston	Massachusetts
New York	New York	New York
North Central	Chicago	Illinois
Southeast	Miami	Florida
Southeast Central	New Orleans	Louisiana
Southwest	Houston	Texas
Pacific	Los Angeles	California

Source : Oh, S. B., H. K. Lee, H. Park, and H. S. Choi (2001), p. 262.

5. Increase in Foreign Direct Investments

It is necessary for the Korean textile and clothing industries to invest in foreign countries in order to increase both the competitiveness and exports of their products. To cope effectively with the changing trade environment in the global textile and clothing market which is characterized by China's accession to the WTO in 2001 and the movement toward free trade in world textile and clothing markets starting from 2005 as well as the Free Trade Area of the Americas (FTAA), it is necessary for the Korean enterprises to increase foreign direct investments (FDI) to enhance their international competitiveness and expand their export markets.

For example, in terms of clothing industry in the US, many clothing firms have recently relocated their manufacturing activities to gain access to cheap labor to foreign countries. By doing so, the US clothing firms have been able to enhance their competitiveness in terms of production cost and speed.

Naturally, Korean firms need to increase foreign direct investments (FDI) into both industrialized countries and developing countries such as China and African countries, in order to expand their export markets and reduce manufacturing costs by utilizing lower labor cost there. To this end, it is desirable that, after dividing worldwide investment target regions into several subregions and deciding on target items for each of the target's subregion, Korean firms should make direct investments into those regions.

The United States

The first investment target region will be the US market.

This is because direct investments to the US market will provide the opportunity for effectively increasing the market share of Korean textile and clothing products in the US market where competition is expected to rise in the near future due to the free trade movement in textile and clothing markets in 2005. More specifically, Korean manufacturers can strengthen the marketing of their products in the US market through joint ventures with local distributors such as mass merchant retailers,⁸⁾ or off-price retailers.⁹⁾

In other words, direct investments in the US market can be another way of promoting exports to that market since the manufacturing activities of local subsidiary companies or joint ventures with US companies can expand the brand recognition of Korean products in the US market in the long term and can

Table 2. Retail Sales of Clothing by Type of Outlet in the USA
unit : percent

	Share (1997)	Share (2000)
Speciality stores	26.1	27.7
Department stores	22.7	20.0
Chain stores	14.5	12.9
Mass merchants	16.8	19.5
Off-price retailers	7.7	8.3
Factory outlets	3.1	2.7
Direct mail/Internet	4.4	4.1
All other	4.7	4.8
Total	100.0	100.0

Source : Textiles Intelligence Limited, *Textile Outlook International*, p. 175.

8) Wal-Mart and Kmart are prominent mass merchant retailers in the US.

9) TJX, Burlington Coat Factory and Dress Barn are prominent off-price retailers.

prevent trade conflicts from taking place between Korea and the US. In addition, in consideration of the growth potential of the US market, its capability for technology innovation and easy access to global market information there, Korean firms must increase their direct investments in that market in order not to lose out in the fierce competition of the textile and clothing industries. For instance, foreign companies such as Zara of Spain and Hennes Mauritz of Sweden have increased their investments in the US.

China and Southeast Asia

The second target region shall be new emerging regions such as China and Southeast Asia. Through the expansion of direct investments to these regions, Korean firms can increase indirect exports to the US market by way of these regions as well as direct exports to these markets.

With China joining the WTO in 2001 and obtaining the benefits of quota elimination, it is expected that its share of the US textile and clothing markets will increase slightly. This suggests that China can be a platform for export into the US market from the standpoint of Korean firms. To capitalize on these opportunities, Korean firms need to make direct investments into China.

Especially, China has imposed export performance requirements, customs privileges associated with direct investments, and offset requirements which compel firms desiring to export to China to engage in local production. Therefore, if Korean firms expand their direct investments in China in the form of joint ventures or wholly foreign-owned enterprises, then they can increase

exports to the US market by way of China as well as increase the share of Korean products in the Chinese market.

On the other hand, Southeast Asia has been recording rapid economic growth rates in recent years and seems to have a great potential for economic development. Hence, Southeast Asia has been emerging as a new target region for foreign direct investments.

Central and South America

The next target region will be Central and South America. The reason why direct investments in Central and South American regions are important is that they are enormous markets with a population of 800 million. Also, this region, with the North American Free Trade Agreement (NAFTA), is expected to form the Free Trade Area of the Americas (FTAA) in January of 2005.

Besides, the Hispanic population in the US has grown by 56.2 percent between 1990 and 2000 and replaced the black population

Table 3. Composition of the US Population by Ethnic Background (2000)

	Number (million)	Share (%)	Change, 1990~2000 (%)
White	198.3	70.5	5.1
Hispanic	35.3	12.5	56.2
Black	34.7	12.3	18.0
Asian	10.2	3.6	43.7
Native American	2.9	1.0	61.1
Total	281.4	100.0	12.8

Source : Textiles Intelligence Limited, *Textile Outlook International*, p. 171.

as the second largest ethnic group in the US. Accordingly, this demographic change has been having an effect on the extent and nature of consumer demand for clothing products. Therefore, textile and clothing products targeting the Hispanic population of the US should be produced in Central and South America where Korean manufacturers are able to respond better to changes in the fashion preferences of the Hispanic population.

Africa

The fourth investment target region should be African countries. This is because a new preferential trade agreement, the African Growth and Opportunity Act (AGOA) which was part of the Trade Development Act of 2000 enacted in the US, provides duty-free access to the US market for the countries in Sub-Saharan Africa.¹⁰⁾ Moreover, because these African countries have lower labor costs, the manufactured products in this region have price competitiveness.

Already, the exports of clothing products from this region to the US have increased, although the Act's provisions are in the early stages of implementation. Specifically, the exports from Sub-Saharan Africa recorded a relatively high growth rate of 16.2 percent per annum between 1995 and 2000. Therefore, direct investments in this region will bring an advantage by indirectly increasing the exports of clothing products to the US. In this regard, some countries such as Hong Kong and Singapore have already begun to shift their manufacturing activities to this region.

10) Sub-Saharan Africa countries include Kenya, Lesotho, Madagascar, Mauritius, South Africa, Swaziland and Zimbabwe.

Because these African countries which were once the colonies of European countries have experience in exporting clothing products such as denim trousers and shorts to Europe, it seems that the technology level of this region in relation to the clothing

Table 4. Growth Rates of the US Clothing Imports by Trading Block and Region, 1995~2001

unit : percent

	Annual Average Growth Rates (1995-2000)	Annual Average Growth Rates 1) (2000-2001)
China, Hong Kong, Macau, Taiwan	3.0	-3.5
CBI	11.9	3.1
NAFTA	24.9	-0.4
ASEAN	11.2	10.3
Indian sub-continent ²⁾	11.7	3.4
Middle East and North Africa	13.0	12.8
EU	5.6	6.3
Eastern Europe and former USSR	15.9	30.4
Andean Pact ³⁾	10.7	3.9
Sub-Saharan Africa ⁴⁾	16.2	32.0
World	10.6	3.5

Source : Textiles Intelligence Limited, *Textile Outlook International*, p. 183.

Notes : 1) The first seven months of 2000 and 2001, respectively were taken into account.

2) Bangladesh, India, Nepal, Pakistan and Sri Lanka.

3) Bolivia, Colombia, Ecuador and Peru.

4) Kenya, Lesotho, Madagascar, Mauritius, South Africa, Swaziland and Zimbabwe.

industry is not much lower than that of other regions. Along these lines, it is desirable for Korean firms to invest in items such as denim trousers and knit shirts in which the aforementioned African countries have competitive advantages.

North Korea

The final investment target region to be looked into should be North Korea. Investments to North Korea are expected to provide an opportunity to increase the price competitiveness of South Korean textile and clothing products. In the short term, because of political and military matters, it will be difficult for South Korean enterprises to invest in North Korea, but in the long term, it is expected that the situation will improve in the direction of reinforcing mutual economic relationships between the two Koreas. Investing in North Korea will bring about lower labor costs from North Korea, the reduction of logistics costs due to geographical proximity, and many other economic benefits.

With respect to the division of labor between South and North Korea, the division of production processes between the two is expected to be activated mainly in the area of the light industry which requires cheap labor. Processing trade,¹¹⁾ which is another type of division of production processes between South and North Korea, has actively increased in the textile and clothing industries. The textile and clothing industries, which

11) Processing trade is the kind of trade in which South Korea provides all or part of the raw or intermediate materials to North Korea and North Korea, after assembling or processing those materials, brings the final products into South Korea.

have lost their price competitiveness in South Korea due to the rapid growth rate of wages and a shortage of labor since the early 1990s, seem to be the best prospective targets for this kind of division of labor.

As for the specific type of division of labor between South and North Korea in the textile and clothing industries, it is reasonable to assume that labor or resource-intensive production processes will be conducted in North Korea, while technology, capital and knowledge-intensive production processes will be conducted in South Korea. More specifically, the up-stream part of the production process such as spinning, weaving and dyeing which is generally technology and capital-intensive, will be conducted in South Korea, while the down-stream part of the production process such as sewing and clothing can take place in North Korea.

As for the division of labor based on product differentiation which is a more advanced form of division of labor in the textile and clothing industries, average to low-priced products, or mass produced items can be made in North Korea, while it is more preferable for high-priced and high quality products to be produced in South Korea. Specifically, casual wear and fashionable or designer clothing products of high quality should be produced in North and South Korea, respectively.

As far as the overall present technology level of North Korea in the textile and clothing industries is concerned, it is very similar to that of South Korea back in the 1970s. However, the sewing skills in the industry seem to be close to that of South Korea.

Furthermore, North Korea designated the Kaeseong industrial

complex as a special economic zone, and declared its intention to develop the Kaeseong industrial complex as its key model project in industrial cooperation between South and North Korea on November 2002. By designating the Kaeseong industrial complex as a special economic zone, North Korea intends to actively induce or introduce foreign investments and technology into the complex, to activate the exports of those products manufactured in the complex to foreign countries by providing tax exemptions, and to improve the living standard of North Korean residents by permitting sales of those goods produced in the complex to other regions in North Korea. In particular, because North Korea decided not to levy duties on the products exported to South Korea and other foreign countries, overseas exports of industrial products from the complex are expected to increase in the future.

Therefore, it is desirable that, in the short term, the Korean textile and clothing industries should try to utilize the Kaeseong industrial complex as a platform for the expansion of direct investments from South to North Korea. In the meantime, the Korean textile and clothing industries should establish a detailed master plan with respect to target items and target areas in North Korea in preparation for the activation of industrial cooperation between South and North Korea in the long term.

6. Establishment of an e-Business Base

To quickly respond to changing consumer demand and buying

patterns, manufacturers need to change their marketing strategy from the current analog-oriented strategy emphasizing production costs and consumers' susceptibility to a digital-oriented one emphasizing time, information, and customer services. For instance, in the United States, some companies are providing consumers with the ability to create and customize their own 3-D clothing model and try on virtual clothes.¹²⁾

Through an e-Business system, firms can enhance their competitive advantages by reducing transaction costs, through easy access to information, by way of joint marketing among firms, by increase in the ability of product planning, and via expediting communications and the exchange of information between manufacturing companies, or between manufacturing and distribution companies, thereby responding quickly to changes in consumers' tastes and fashions.

For the effective establishment of an e-Business base in the textile and clothing industries, the standardization of the Electronic Data Interchange (EDI) has to be achieved.

12) See Kilduff (2001), p. 191.

IV. Conclusion

In recent years, the product life cycles of textiles and clothing have shortened relative to the past, due to the changing consumer lifestyles and buying patterns, together with intense competition in the global market for textile and clothing products. Hence, retailers have intensified efforts to provide consumers with new ideas, better quality and lower prices. In turn, they have put greater stress on their suppliers to provide product development and diversification, short lead times, lower prices, superior technical performance or very fashionable merchandise, and superior service.

Thus, the increasing global competition in the textile and clothing industries resulting from slower growth in the consumption of textile and clothing products, together with increasing fragmentation in the markets, has led to some changes in the marketing strategies of manufacturers. Earlier marketing strategies were based on the mass-production and standardization of products as well as on the maintenance of global market shares. However, marketing strategies have changed in the direction of lowering prices, providing the superior technical performance of products, enhancing brand recognition and offering speedy, flexible and reliable services.

In order to strengthen the industrial competitiveness of the textile and clothing industries and to increase the overseas exports

of their products, initially, Korea needs to increase the capacity of product development, brand management, global outsourcing, and supply chain management (SCM) through re-engineering and restructuring of its textile and clothing industries.

Second, Korea's textile and clothing industries need to pursue product differentiation and increase the value-added of their products in order to cope with the growing competition of the global market and changes in consumers' tastes in textile and clothing products.

Third, to increase the exports of textile and clothing products, Korea needs to strengthen the marketing of its export and further promote exhibitions of its products.

Fourth, Korea should expand its overseas investments to reduce manufacturing costs and secure new export markets for textile and clothing products.

Finally, Korea should establish an e-Business base in the textile and clothing industries in order to expedite communications and the exchange of information between manufacturing companies, or between manufacturing and distribution companies, thereby responding quickly to changes in consumers' tastes and fashions.

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