



# Somewhere between Formal and Informal: *Growth and Limits of Korean Wholesale Businesses in the Argentine Garment Industry*

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## Abstract

*Since the start of Korean migration to Argentina in the 1960s, ethnic Koreans in Argentina have been intensively involved in the garment industry. Compared to previous decades, when Korean entrepreneurs made rapid and notable progress in the industry, in recent decades Koreans have remained in the semiformal Avellaneda Avenue wholesale market instead of moving up to the larger, more competitive formal market segment. Based on ethnographic research conducted in Argentina, this research aims to explore why large-scale Korean wholesale garment businesses that have the capacity to expand into the formal market prefer to remain in the semiformal market, and how informal business practices have influenced these businesses' long-term development. While these informal practices have been shaped within an environment of loose government control and rampant corruption in the sector, the decision to maintain semiformal operations is a contextual response to the complex social, economic, and political circumstances of a developing country in the Global South. The research findings further suggest that informal business practices seem likely to be the critical factor in the development of Korean garment businesses, even as these practices block entry into the larger mainstream market and constrain their future growth.*

**Keywords:** Korean immigrant business, Argentine garment industry, informality, mainstream economy

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## **Introduction**

Ever since their first arrival in Argentina in the 1960s, Korean immigrants have been intensively involved in the garment industry. Korean immigrants started in garment sewing workshops as humble self-employed subcontractors, then gradually developed bigger businesses over time (Kim 2020, 2021). By the mid-1980s, they had expanded into the middle-range wholesale garment sector, integrating production and distribution (Lee 1992, 246–247). Currently, about 80 percent of the 20,000 ethnic Koreans residing in Argentina are engaged in the garment industry.<sup>1</sup> A significant number are concentrated in the wholesale sector, while a relatively smaller number operate subcontracted workshops or retail stores (Kim 2020, 2021). Yet, compared to their rapid progress between the 1960s and 1990s, in recent decades Koreans seem to have become entrenched in the semiformal Avellaneda Avenue wholesale market, avoiding the larger, more competitive formal market segment. Why so?

Globally speaking, the garment industry shows a high level of informality. Many studies (Waldinger 1984, 1986; Morokvasic 1987, 1988, 1993; Bonacich 1990; Bonacich et al. 1994; Rath 2002; Green 1997; Light et al. 1999; Bonacich and Appelbaum 2000; Light and Ojeda 2002; Buechler 2003, 2004; Chin 2005; Light 2006; Panayiotopoulos 2006, 2010) have demonstrated the important role immigrants have played in the development of this industry. The vast majority of research on this industry, however, has been confined to the immigrant workforce, immigrant entrepreneurs, and their informal activities on the manufacturing side, reflecting a common pattern in big Northern Hemisphere cities, such as New York, Los Angeles, Amsterdam, Paris, or Berlin. Many immigrant entrepreneurs operate as contractors or subcontractors in the lower ranks of the industry, with governments and their law enforcement agencies turning

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1. There are no official data on the number or proportion of Koreans in the Argentine apparel industry. However, the main community organizations, such as the Korean Association in Argentina and the Chamber of Korean Entrepreneurs in Argentina, tend to agree that 80 to 90 percent of ethnic Koreans are engaged in that industry in some way.

a blind eye as long as they remain an important source of unskilled employment (Light and Ojeda 2002; Rath 2002; Light 2006; Panayiotopoulos 2006, 2010). Garment manufacturing in Argentina is characterized by informal practices as well. However, one of the distinctive characteristics of the Argentine garment industry, compared to those in the developed countries of the Global North, is that a high level of informality is found in not only the production sector but also the commercial sector.

Research shows that immigrant entrepreneurs with limited resources use low-barrier markets (Waldinger 1986; Rath 2000). Informal activities provide economic opportunities that help migrants in getting established and developing their businesses (Kloosterman and Rath 2003). Rath (2002) further claimed that the concentration of specific ethnic groups within a distinct business sector is not just the result of how new entrepreneurs enter the market, as entrepreneurs may move around, go upmarket, or break into a new market. The prospects for ethnic businesses are certainly contingent on the presence or absence of entry barriers to those markets, but also on the conditions and characteristics of the markets in which entrepreneurs operate over time (Rath 2002, 16). In other words, diverse market conditions offer entrepreneurs different opportunities and obstacles, demand different skills, and lead to distinct outcomes.

Korean immigrant entrepreneurship in Argentina's middle-range wholesale garment market is an effect of the distinctive features of the sector. Extended informality in this market created an opportunity structure for business entry, consolidation, and concentration of ethnic Korean businesses in the sector. But this informality also explains why large-scale Korean wholesale garment entrepreneurs with the capacity to expand into the formal market have preferred to remain in the semiformal market, in spite of the apparently negative consequences of such a choice.

While the reasons for Koreans flocking to the sector are well known (Kim 2020, 2021), the specific reasons for their concentration in the middle-range semiformal wholesale market have not yet been addressed. In this study I tackle this question drawing on firsthand information and analysis from stakeholders for a bottom-up perspective on the current conditions under which Korean garment businesses operate. After laying out some

essential concepts and the theoretical framework and research methods, I analyze how the informal conditions have influenced the easy entry and fast development of Korean garment businesses. I then turn to how these businesses' informal practices have been shaped and why most of these businesses prefer to remain in the semiformal market instead of moving into the formal market. Finally, I discuss the effects of remaining informal in terms of long-term business perspectives and constraints on their possibilities for growth.

### **Theoretical Frameworks on Informality**

Previous scholars who hold classical views of *informality* have worked with a strict analytical distinction between formal (regulated) and informal (unregulated) activities. However, such a dichotomy creates problems by simplistically dividing all economic activities into formal or informal—the latter negative and the former positive (Williams 2007; Williams and Windebank [1998] 2004; Jones et al. 2006). This narrow distinction oversimplifies the picture and limits understanding of how business practices and performances have actually been shaped and reshaped by circumstances within the larger structural, economic, and institutional contexts. Thus, in this research, I propose the concept of semiformality.

As entrepreneurs can engage in informal practices fully or partially (Webb et al. 2014; Ilyas et al. 2020), no single characterization is universally applicable to all informal entrepreneurs. The informal economy can be generally defined as the production and sale of goods that are legitimate but organized in such a way as to avoid tax obligations, social security and labor laws (Williams and Windebank [1998] 2004; Williams 2006; Ilyas et al. 2020, 2698). This includes, for example, the sweatshop production of textiles and apparel (Castells and Portes 1989, 14–15). Previous studies have found a variety of examples of informal practices, such as violation of registration rules, violation of labor laws, production of knock-offs, and tax evasion (Webb et al. 2014; Ilyas et al. 2020). The lack of state regulations and controls are a defining feature of informality, especially for countries in the Global

South—a point I discuss in more detail in this article.

While Sassen (1997) and Raijman (2001) claimed that engagement in informal work for the majority of entrepreneurs is necessity driven, especially in ethnic minority and immigrant communities, Williams (2007), in his work on entrepreneurs in England, concluded that the necessity/opportunity dichotomy is too simplistic and that factors motivating participation in the informal economy are more diverse and complex. Ilyas and colleagues (2020) found that the decision to operate informally is most influenced by institutional factors, but that individual and structural factors also play a crucial role, especially in developing countries. In examining informal entrepreneurs in Brazil, Siqueira, Webb, and Bruton (2016) asserted that industry conditions were a vital factor in the informality, specifically levels of munificence, concentration, and dynamism.

Webb et al. (2009) highlighted the importance of the social context of entrepreneurship and adopted a multilevel perspective by integrating entrepreneurship theory (micro level) with theories of institutional (macro level) and collective identity (meso level). In a similar vein, the concept of mixed embeddedness, which focuses more specifically on immigrant business in the informal economy, links the micro level of the individual entrepreneur to the meso level of the opportunity structure as well as the wider political and institutional framework at the macro level (Kloosterman and Rath 2003; Kloosterman 2010). These two theories highlight the importance of three social levels: the macro level of institutional and governmental practices, the meso level of market and opportunity structures, and the micro level of individual entrepreneurship. Thus, in my research, I looked at all three levels in order to understand informal management in Korean businesses. In my analysis, I have paid particular attention to how complex social conditions and contexts in a developing country in the Global South have affected Korean entrepreneurs' informal management style, initiatives, and decision to remain in the semiformal market.

Thus far, while a large number of studies (Bonacich 1990; Bonacich et al. 1994; Kloosterman et al. 1999; Bonacich and Appelbaum 2000; Rath 2000, 2002; Jones et al. 2004, 2006; Light 2006; Panayiotopoulos 2006, 2010)

have explored the influence of the informal economy on the entry and development of immigrant businesses, only a few (La Porta and Shleifer 2008, 2014; Sutter et al. 2017) have focused on the transition processes of businesses from informal to formal economies as well as the limits on and obstacles to their incorporation into the formal segment. I now turn to this problem by examining diverse experiences with and opinions about the informal practices and business development of Korean wholesalers in the Argentine garment industry.

## **Research Methods**

This particular research is based on interviews and participant observation that I previously conducted February–June 2014 in order to understand why and how Korean immigrants have been intensively concentrated in the Argentine garment industry. The results of this previous field research, published recently (Kim 2020, 2021), offered valuable insights for the present study on informal management in Korean immigrant businesses. Between 2019 and 2022, follow-up research was carried out specifically focusing on Korean immigrants' experiences and opinions in terms of their informal management practices. While some follow-up interviews were conducted via Zoom or WhatsApp in 2020 and 2021, in-depth interviews and direct conversations were also held in person during field research in 2022, which were particularly helpful for checking previous data and incorporating recent changes in the sector, especially during the COVID-19 pandemic.

My experiences and background living and working in Argentina as an immigrant were critical assets throughout the data collection and analysis processes, from being able to approach interviewees easily to interpreting interview data deeply. Although I never worked directly in the garment industry, these experiences played a crucial role, providing meaningful insights and reflections in interpreting and evaluating the research data. Furthermore, having Korean friends who were directly involved in the garment industry and being acquainted with many representatives of

community associations were of significant value to me when I approached participants and carried out the research.

In my first fieldwork period, it was not easy to ask direct questions about informal business practices as this is a sensitive area, but if the subject naturally arose during the conversation, I tried to tactfully probe them about the issues raised. In the follow-up fieldwork between 2019 and 2022, I reinterviewed about a dozen Korean and Argentine entrepreneurs in the sector, mostly relatives of friends as well as entrepreneurs with whom I had previously built a good rapport and kept in contact; this close relationship lent them the confidence to open up about their informal business management practices. These follow-up interviews revealed a significant change in payment methods used by the Korean wholesale businesses during the COVID-19 pandemic, which I will analyze in the business management section.

I carried out thematic analysis (Creswell and Creswell 2018) by coding, organizing, and classifying my field data into detailed themes and topics. After preidentifying themes, I thoroughly combed through my field data and, using the qualitative analysis software NVivo, classified information according to those themes, adding new ones as they arose while examining their various dimensions. Finally, I went back to each thematic area, linking it to a theoretical explanation and taking into consideration the limitations of existing theories. In the data analysis process, I dealt with each interview in its original language, only translating into English specific statements for this publication.

### **Informality, Easy Market Entry, and Growth Prospects**

As discussed previously, a high rate of informality in garment production is common in many cities worldwide as manufacturers derive benefits from the subcontracting system by transferring their own production risks to sweatshops. Similarly, informal production practices are common in the Argentine garment industry. Most sweatshops are not regulated; workers are grossly underpaid and typically work in extremely poor and precarious

conditions. However, what distinguishes the Argentine garment industry from those in developed countries is that it is not only production but also important aspects of commercial activities that are conducted in an informal manner.

In his recent research on the informal garment sector in Argentina, Lieutier (2010, 82) suggested four distinct pathways for the sale of garments made in sweatshops: (1) first-line brands, which have their own local marketing initiatives/outlets and in many cases retail in large shopping centers; (2) medium-sized companies, which do not usually have their own brands and reach consumers through multibrand shops; (3) semiformal wholesale markets geographically concentrated within specific districts, such as Once and Flores; and (4) small- and medium-sized businesses which sell their products on the illegal *black market*, such as at the La Salada outdoor market. Because the Argentine government's strongly protectionist policy toward its domestic garment industry, there are only a few international brands in Argentina. For instance, even very common international brands, such as H&M, Zara, and Gap, found very easily in many cities internationally, cannot be found in Argentina. The first-line brands in large shopping centers are mainly Argentine. Those few international brands that are present, such as Nike and Adidas, are obliged to ensure that over half of their production is done locally.

While informal production practices penetrate all commercial segments in the Argentine clothing market, from the knock-offs sold wholesale at La Salada up to the quality goods sold in the most exclusive stores throughout the country, the level of informality in garment distribution, management, and marketing processes varies significantly by segment (Montero 2011, 27). For instance, the large companies with well-known brands sell their products directly to purchasers formally. At the other extreme, most of the La Salada transactions can be described as informal. As mentioned above, Korean garment entrepreneurs have concentrated in the wholesale market around Avellaneda Avenue in the district of Flores. This market is characterized by massive commercial activity in the middle to lower price range. It is situated between the formal, commercialized larger name-brand outlets and La Salada, which is the completely informal circuit. Similarly,

Lieutier (2010, 82) and Montero (2011, 117) consider Once and Avellaneda Avenue as “semiformal” wholesale garment markets.

**Table 1.** Level of Informality in Production and Distribution in the Argentine Garment Markets

	Informality in production	Informality in distribution
Brands	High (informal)	Very low or none (formal)
Avellaneda Avenue (Flores)	Very high (informal)	Medium (semiformal)
La Salada	Very high (informal)	Very high (informal)

This particular feature of the domestic garment industry has permitted small-scale entrepreneurs to participate in both the production and distribution sectors. In developed countries, it is typically difficult to migrate from sweatshop ownership to garment manufacturing or wholesale/retail shop ownership. However, in Argentina, ethnic entrepreneurs with limited capital overcome barriers to entry in the commercial sector with relative ease because of the latter’s high informality. Montero (2012, 27) confirms the easy entry and favorable opportunities for immigrant entrepreneurs in the Argentine apparel distribution sector by pointing out that, “In a way La Salada is the workshop owners’ attempt at generating their own commercial channels as a means of escaping the rules and prices charged by manufacturers, or at least of supplementing their gains as subcontractors.” Furthermore, Montero (2011, 116) concludes from his interview data that the garment distribution sector is much more profitable and carries less risk than the production sector, and therefore, subcontractors prefer to have their own stands/stalls/booths in informal markets than to operate high-risk sweatshops.

Furthermore, a considerable number of Koreans achieved upward mobility through opportunities provided by the garment industry; this led many Koreans in Argentina to believe that business opportunities in the sector can yield relative economic benefits and advantages (Kim 2021). In

particular, a high rate of informal or semiformal management structures, which is quite distinctive to the Argentine garment industry, provided a broader array of niches available to Korean entrepreneurs in the commercial garment sector as well as greater opportunities for upward mobility (Kim 2021). A further attraction of the commercial clothing sector is the diverse array of business opportunities it offers, available to both large and small capital investors (Kim 2021). For instance, in recent years, *galerías* (shopping arcades or malls) with small shops or kiosks continued to proliferate around Avellaneda Avenue. The shop owners do not produce apparel directly but buy clothing from wholesalers and resell them to retailers. These small shops provide opportunities for opening businesses without large amounts of capital, thus encouraging many Korean immigrants to start up garment businesses in the commercial sector. In addition, the informal practices in the sector, such as tax evasion and hiring employees informally, make it easier for Korean entrepreneurs with little capital to set up and manage their own businesses (Kim 2021).

### **“Evolved Informality”: Semiformal Management in Korean Wholesale Garment Businesses**

Currently, mid- and large-scale Korean enterprises maintain complex production and distribution operations that involved both cutting factories and wholesale shops. These wholesale shops are involved not only in selling clothing wholesale to retailers but also in manufacturing. Two or three times a year, the owners travel to Europe or the United States to observe new fashion trends. They purchase samples of the preferred new styles and replicate them in their factories in Argentina. Some wholesalers hire designers to produce patterns; purchase textiles; and hire personnel to cut the fabric. The spaces where these cutters work are typically on the second or third floor of the wholesale shop. Alternatively, they may be located in separate buildings, usually nearby (Kim 2014).

The wide range within informality—the various shades of grey—is apparent in the wholesale garment shops around Avellaneda Avenue as

government control is loose and corruption is rampant in the sector. Through numerous individual interviews, I learned that informality in the Avellaneda Avenue wholesale garment district varies substantially from shop to shop. However, there are some general tendencies; for example, the small shops tend to be less formal than the larger ones. While all the shops are formally registered, informal practices in the wholesale garment sector are generally evident in three aspects: (1) subcontracting to sweatshops; (2) informal employment; and (3) tax evasion. Considering the concept of mixed embeddedness (Kloosterman et al. 1999; Barrett et al. 2001; Kloosterman and Rath 2001, 2003; Barrett et al. 2002; Rath 2002; Panayiotopoulos 2006, 2010; Kloosterman 2010) in a complex and manifold way, I demonstrate how Korean entrepreneurs interactively negotiate these grey areas, drawing on available resources whenever possible and creating different forms and domains of mixed embeddedness in order to ensure maximum profit and cut costs in a cutthroat market.

### *Controlling the Production*

In the past, many wholesalers were set up for the comprehensive production of garments, conducting all aspects of machine sewing or knitting under one roof and directly hiring Bolivian seamstresses; however, this practice has been declining. Today, the operation of a sweatshop with numerous employees is risky and problematic in relation to time, effort, and costs; thus, most Korean wholesalers prefer to outsource, getting the fabric cut and sewing processes finished in subcontracted sweatshops. In wholesale shop factories, managers are in charge of not only checking the cutting of fabrics but also controlling the quality and quantity of apparel fully manufactured by subcontracted sweatshops.

According to Argentine law, manufacturers (wholesalers) are as responsible as sweatshop owners for unregulated economic activities in the sweatshops to which they subcontract, because manufacturers are viewed as ultimately responsible for the entire production chain (Montero 2011, 123). According to one young Korean wholesaler who manufactures and sells clothes:

Although I send the sewing work to Bolivian workshops, I am ultimately responsible as the manufacturer. According to current Argentine law, I have to pay a certain amount of tax for the subcontracted workshops, just as I pay tax for my legal employees. Once an inspector went to one of my Bolivian subcontracted workshops and saw the clothes with my CUIT number [fiscal ID]. He sent me a notice with a fine. I don't know how exactly, but my lawyer solved the problem with money, so I forgot about it.<sup>2</sup>

As this illustrates, the government aims to enforce laws on unregulated and informal sweatshop activities, imposing fines on manufacturers who run large-scale businesses in a visible and less informal way. Although the regulations are well intended, they often result in illegal solutions, in most cases the arranging of bribes at smaller amounts than the fines.

### *Ethnic Division and Employment Patterns*

In terms of employment management in Korean wholesale shops, informality has evolved differently according to employee ethnicity. Typically, young Korean Argentines (usually 1.5- or second-generation) are hired informally as shop managers. They normally deal with customers at the counter and coordinate tasks between Korean owners and local shop assistants. Korean wholesalers tend to hire co-ethnic employees informally while using formal contracts for local Argentine employees. Unlike in Korea, the labor laws and regulations in Argentina are extremely strict. Workers can demand and claim their rights, and the government strongly supports and sides with them. In particular, retaining informal workers for a lengthy period is risky for Korean entrepreneurs because they have to pay penalties and compensation for the duration of their informal employment in case of legal conflicts. For these reasons, Korean entrepreneurs tend to hire local Argentine employees on a formal basis. These formal practices for local

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2. Daniel Oh (age 34; Korean Argentine; migrated in 1984), interview by author, Buenos Aires, May 14, 2014. Unless otherwise noted, all interviews were conducted in Korean or Spanish and translated into English by the author.

employees show that strict law enforcement tends to affect entrepreneurial management and operations on a formal level, as the concept of mixed embeddedness suggests (Kloosterman et al. 1999, 262). However, these same employers practice labor relations based on trust with co-ethnics in which informal, non-contractual employment conditions prevail, as for them, co-ethnicity of a worker suggests reliable relations, loyalty, and strong trust; therefore, hiring them informally is not considered risky. Young Korean Argentines who do not have opportunities to take over parents' businesses often take up management positions in the wholesale shops or factories. While they are hired informally, they usually have a higher salary, as they get paid in cash what the employers are not paying in tax.

### *Tax Evasion*

Tax evasion is another strategy common among apparel businesses (Rath 2002; Jones et al. 2006); according to my interviewees, it is common in Argentine garment businesses regardless of ethnicity. The following is illustrative:

I think Núcleo [a large wholesaler] pays a lot of tax. They have many employees and lots of cash flow, so they are under the inspectors' spotlight. Many Koreans pay taxes, but of course they don't declare everything they sell, only a part of it. There is no Argentine businessman paying 100 percent of the corresponding tax. We pay only what's necessary —sometimes less than half, sometimes more than half.<sup>3</sup>

As this suggests, tax evasion can take many forms and happen to different degrees. Furthermore, before the Covid-19 pandemic, in the Avellaneda Avenue wholesale area cash transactions were predominant regardless of the wholesalers' ethnicity. An Argentine accountant explained in detail why many businesses in Argentina prefer cash transactions:

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3. Raul57 (age 57; Jewish Argentine), interview by author, Buenos Aires, April 29, 2014.

Obviously, if the purchase is in cash, the entrepreneur can easily save the fiscal cost of the transaction. However, if it is in several installments, the transaction almost always needs to be implemented with a credit card, in which case [the sale] must necessarily be declared. The commission on the card is around five percent. Moreover, companies and banks that operate cards must also retain a percentage to pay national and local taxes, ranging from five to ten percent extra. This leads entrepreneurs to prefer cash.<sup>4</sup>

As this interviewee explained, in order to declare less income and pay less tax, wholesale shops around Avellaneda Avenue heavily favor cash transactions, producing informal receipts. One of the biggest changes in the sector resulting from the COVID-19 pandemic was that businesses had to accept online sales, together with electronic means of payment, forcing a move away from cash to bank transactions. During the national lockdown in 2020, the first year of the COVID-19 pandemic, shops and sewing and knitting workshops were not allowed to operate for several months. Despite this, most Korean workshops did obtain permission to operate. The permissions were granted strictly for mask production, but according to my interviews, the wholesalers took advantage of the opportunity to continue to produce garments as usual. However, they had to start trading online, accepting payment via debit/credit card as well as bank transfer. While it may seem as though this would mean an increase in formal transactions and thus more tax paid than before, according to my interviewees, alternative strategies were devised to continue limiting the amount paid in taxes, and the informality in regard to this issue remained the same. Several of my interviewees gave me details but preferred I refrain from publishing them.

The boundaries between formality and informality remain blurred. The sector's entrepreneurs manage their businesses exploiting the (substantial) margins of informality afforded by a regulatory environment that is demanding and yet patchy. Paper trails are kept to a minimum compatible with state control. Context and circumstances—the peculiar Argentine mix

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4. Anonymous (age 62; Argentine), interview by author, Buenos Aires, May 9, 2014.

of relatively high taxes and loose, “negotiable” government control—have been highly determinant in business practices in the sector, regardless of entrepreneur ethnicity. In the next section, I further examine why most of these entrepreneurs prefer to stay in the semiformal market and how their informal management approach helps determine the possibilities for and limits on their long-term business development and growth.

### **Reasons for Staying in the Semiformal Market**

As Light (2006, 85–86) suggested, informal economies provide more accessible market niches to those with minimal resources who seek self-employment. The low-middle price/quality segment of the clothing market in Argentina provided a good niche for Korean immigrants, allowing them to obtain substantial upward mobility. Today, Bolivian immigrants seem to be claiming this niche, as Koreans did in the past. In turn, Jewish businesspeople seem to have moved into the mid-high price/quality segment of the apparel market sector, or moved to other economic activities. In addition, in the 2010s, *galerías* with small shops or kiosks continued to proliferate around Avellaneda Avenue, providing new business opportunities for those with little initial capital. Thus, the same market segment could, in the future, become an opportunity for others; gradually, the Korean community is becoming aware of the need to compete or move on.

In recent years, the number of new entrepreneurs in the wholesale garment sector, especially Bolivians, has been growing very fast, and competition has become harsh. This is not an easy environment in which to operate a small- or medium-sized business. As entrepreneurs operating in penurious environments have less opportunity for growth and less potential for significant returns on new investment, they are more likely to be focused on subsistence and less likely to formalize, while entrepreneurs in munificent industries are more likely to formalize (Siqueira et al. 2016). In other words, the difficulty in accessing critical resources in less munificent industries means that entrepreneurs have less capacity to pay tax. Many of my interviewees, especially those who were just starting their businesses in

*galerías* with small shops or kiosks, confirmed that for small- and medium-sized businesses, the semiformal conditions provided an easy environment in which to start their businesses as they could save on taxes and various fees. They mostly adopted a semiformal business model, like the other entrepreneurs in the area. If they were to pay all formal costs, they might find it difficult to initiate or continue their business. But what about the highly successful and well-established Korean entrepreneurs operating a large-scale wholesale business, managing a large capital enterprise, and hiring dozens of employees in the Avellaneda Avenue semiformal market over a long period of time? Do they aspire to move into the formal market?

According to many of my interviewees, this group has the capacity to organize and develop their businesses in order to advance into larger markets, develop unique brands, and expand their businesses vertically or horizontally. Even so, many do not intend to do so, as illustrated in this statement:

Koreans can make their business much bigger if they want. Many second-generation [Koreans] run their business in a different way and develop their own brands. They have the capacity. However, since the market and the economy are too unstable, many do not want to invest and take on a long-term project. In our case, we considered it very seriously, but decided not to because it wasn't right for us.<sup>5</sup>

As this reflects, the unstable economic and political conditions in the host society have been critical in larger-scale businesses hesitating to move into the formal sector. Their initiatives and decisions have been affected by the market and the general economic conditions rather than the size, capacity, or potential of their businesses. Perhaps a realistic assessment of their opportunities has led Koreans to simply continue in the same niche and maintain good profits rather than enter the larger market with bigger aims under unpredictable, unstable, and risky market conditions. In addition, previous studies (Williams and Shahid 2016; Ilyas et al. 2020) have

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5. Mi-Ae Cho (age 50; Korean Argentine; migrated in 1970), interview by author, Buenos Aires, April 23, 2014.

demonstrated that corruption, injustice, distrust in the government and in state administrative and legislation systems, and state failure have been vital factors in entrepreneurs choosing to stay informal—issues that are generally more relevant to contexts in developing countries, in this case Argentina. These entrepreneurs justify operating informally in the belief that they can use their capital more effectively than the state would had this capital gone to paying taxes (Siqueira et al. 2016). In particular, many immigrants and local entrepreneurs justify tax evasion as a response to not receiving good services from the state, as in the following statement:

Many [Korean immigrants] say that the Argentine government is awful and this justifies their not needing to pay the tax. The government does not protect businesses at all, so they do not want to pay the tax.<sup>6</sup>

Entrepreneurs in a highly dynamic environment like that of Argentina thus have less motivation to undertake the formalities, costly investments to meet regulatory requirements, and upfront fees as these sunk costs come off their income and distract them from more productive entrepreneurial activities (Siqueira et al. 2016). The following comment is consistent with this view:

Koreans do not want to build big brands like Argentines. For many, the main aim is to make money as quickly as possible. They don't want to live here for a long time but want to make money and leave for Korea or other developed countries. Probably because of the economic problems and instability, they don't want to live here.<sup>7</sup>

For the reasons presented in this statement, in recent decades most Korean garment entrepreneurs, including those with the high capacity necessary to expand their businesses into first-line brands, have instead concentrated on the Avellaneda Avenue wholesale market, which is considered *semiformal*.

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6. Hong-Yeal Kim (age 56; Korean Argentine; migrated in 1976), interview by author, Buenos Aires, March 20, 2014.

7. Sang-In Go (age 54; Korean Argentine; migrated in 1983), interview by author, Buenos Aires, May 25, 2014.

Although informal practices in this sector are prevalent in terms of subcontracted sewing workshops and informal employment arrangements, the issues related to tax evasion are more related to the conditions under which further development and incorporation into the formal and mainstream markets might take place. The portion they can evade by declaring none or only a portion of their income is significant as they are liable for 35 percent tax on their declared sales and income.

In remaining in the informal economy and avoiding taxes and compliance costs, Korean entrepreneurs with large-scale businesses can generate much greater and faster returns in the short run. This is consistent with the arguments of some scholars (Williams 2006; Webb et al. 2009) that not only those entrepreneurs with less financial capital and fewer resources but also the more affluent ones consider the informal economy as more attractive since their business opportunities and motivation to increase their wealth and access to needed resources are better in the informal economy. In particular, Williams (2006) and Ilyas et al. (2020) argued that the informal sector provides opportunities not only to entrepreneurs without resources to engage in this sphere but also to more comfortable entrepreneurs to stay in the sector as it enhances their income. In other words, entrepreneurs are not necessarily pushed into the informal economy by being excluded from the formal economy; rather, some may voluntarily enter or remain in the informal economy due to its more attractive opportunities (Perry et al. 2007; Siqueira et al. 2016). This is the main reason many large-scale Korean garment wholesalers in Argentina stay in the semiformal market.

Furthermore, in order to legitimize their informal practices, wholesalers in the Avellaneda Avenue market area, regardless of their ethnicity, tend to create common discourses and identities with potential investors, suppliers, customers, and employees and to engage in collective action (Lounsbury and Glynn 2001; Webb et al. 2009), as reflected in this interview:

Nobody here [around Avellaneda Avenue] pays 100 percent tax. Some shops declare 50 percent, others 20 percent... all are different. It's the reason they [Korean wholesale shops] don't accept credit cards. If they accept credit cards, all the records are at the banks, so they would have to

run 100 percent formally. [...] Textile businesses are the same. They don't accept credit cards. We [textile companies around Avellaneda Avenue] receive 50 percent checks and 50 percent cash, which means 50 percent white [formal] and 50 percent black [informal]. [...] I think the Jewish business owners are operating in the same way. If I pay 100 percent taxes, I can't compete with the others. The funny thing is that if we keep our account books well [even without paying all taxes], everything is all right. Sometimes they [AFIP/National Tax Service] investigate. In those cases we can resolve the issue with bribes.<sup>8</sup>

As this comment reflects, informal activities integrate microlevel entrepreneurial behaviors with macrolevel institutional and mesolevel collective action by shaping common discourses (Webb et al. 2009). It is crucial to consider the social contexts of entrepreneurship through a multilayered perspective as this can help reveal how an informal economy can emerge through a gap between what is legal in a society and what some large sectors of society consider to be legitimate in that society (Webb et al. 2009). For instance, although entrepreneurial activities outside formal institutional boundaries are illegal, most Avellaneda Avenue wholesalers deem them as socially acceptable and essentially legitimate as they are consistent with their values, beliefs, and norms. This also can be typical of the social environment in a developing country where informal practices and tax evasion are common and entrepreneurs justify their informal and semiformal business practices as socially acceptable.

### **Informality and Constraints on Integration into the Mainstream Economy**

As discussed thus far, entrepreneurs pursue informality as a strategy because of its short-term, substantive benefits. However, this choice places the entrepreneurs at a disadvantage in the long term (Siqueira et al. 2016). For

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8. Pablo Yoo (age 34; Korean Argentine; migrated in 1986), interview by author, Buenos Aires, March 2, 2014.

instance, the tax evasion issue is intertwined with that of access to greater business opportunities within the host society. In Argentina, only money declared through clear and formal transactions with taxes paid can be used for future investment in the formal sector. Several interviewees shared their understanding that semiformal management practices, especially tax evasion, prevent them from advancing to higher business opportunities, as this comment illustrates:

If Korean entrepreneurs don't [pay tax], they can't grow. If they pay it, it will open up more business opportunities. If you have black money [money made under the table] that you made without paying tax, you can't invest it. The Korean community's problem is that many of them have black money. There is no way to launder that capital. If you want to make legal money you must pay 35 percent in tax, but Koreans want to save it. They do everything not to pay taxes. This is a very bad business management style. Accountants should tell their [Korean] clients that this is the wrong way, but they just adjust to what their clients want. Nowadays the government knows that Koreans evade taxes whenever possible.<sup>9</sup>

As demonstrated in many interviews and personal conversations with Korean entrepreneurs, informal management practices that have influenced Korean wholesalers positively also have negative aspects as well as limitations. This is consistent with La Porta and Shleifer's (2008, 2014) claim that informal firms rarely attempt to become formal, as informal firms inhabit an economic space of their own, disconnected from the formal space, by avoiding taxes and regulations. One of the committee members of the Chamber of Korean Entrepreneurs also mentioned the potential of Korean garment businesses and the importance of making them formal and visible:

You can't imagine the amount of cash that is moving around the Korean garment businesses in Argentina. The total sales of a few Korean shops get

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9. Ki-Il Bae (age 65; Korean Argentine; migrated in 1965), interview by author, Buenos Aires, May 11, 2014.

up to [US]\$60 million per year! [...] In fact, all those businessmen have been managing their own money without credit or debt. The key money for those shops on Avellaneda Avenue is [US]\$300,000 to \$400,000 per year, and Korean wholesalers pay their key money in cash. Those Korean businesses have lots of potential. It is important to formalize them. We are trying to get them to diversify their businesses. There are several people who are investing in buildings and hotels. [...] It is not easy; right now only a few people are doing it [formalizing their business]. However, it is possible. This [formalizing] is the only way to survive.<sup>10</sup>

Korean wholesale businesses have been running at a large scale in an informal way, without declaring their sales and income, and this makes it difficult to maintain and expand their businesses. In fact there are several Korean entrepreneurs who are working to make their businesses legal, visible, and larger, although it is generally acknowledged that they are not the majority. For example:

We are spending around [US]\$200,000 a year on advertising, but including gifts and [our customized] paper bags, it can be much more money. [...] I don't think big shopping centers negatively discriminate against Korean businesses. The problem is that they don't have enough space, so it is very competitive. We had a special arrangement with the company owning the shopping center. We also had to show all our profits and other documents. [...] I pay a lot of tax. Many people here can't imagine how much tax we are paying. We hire all the employees formally and pay all taxes. I declare my profits. In this way, I can invest my money freely. Otherwise, it is difficult to invest. These days, this country [the government] also monitors tax closely, so you should be correct in terms of accounting.<sup>11</sup>

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10. Dr Park (age 46; Korean Argentine; migrated in 1984), interview by author, Buenos Aires, May 21, 2014.

11. Jung-Han Kim (age 45; Korean Argentine; migrated in 1985), interview by author, Buenos Aires, May 27, 2014.

As the interview above demonstrates, much higher costs are required to move a business into first-line brands in the larger, formal garment sector. Costs for advertising and rent for retail shops seem to be high. Furthermore, good connections are needed to rent shops in shopping centers and in good spots along the city's major avenues. Moving up requires a high level of capital and effort, and many Korean wholesalers calculate that the return will not be as high as the investment. Clearly the prospect of moving to the brand level is reserved for only few of the most successful, well-capitalized wholesalers.

In addition to the cost of moving up, a vital change is required of entrepreneurs: in order to be able to expand their commercial activities they need to formalize them, in particular declaring all sales and income and paying the corresponding tax. While informal/semiformal activities facilitate better profits in the short run, these practices also militate against further business development in the long run. Thus, their informal practices seem likely to be the critical sticking point constraining their future growth and blocking entry into the larger mainstream market, i.e., for first-line brands.

I infer from my interviews that that younger-generation Korean Argentines who have taken over their parents' wholesale business are more aware than their parents about the informality of the management of their businesses and its long-term impacts. However, they are also very aware that informality is very common in Argentina, especially in the garment industry, and that it will be hard to compete with others in the wholesale market around Avellaneda Avenue if they move to a more formal model. Although these younger Korean Argentines hold more negative views on informal management practices, in practice, they perpetuate them, without major change.

## Conclusion

The wholesale market around Avellaneda Avenue, where Korean garment entrepreneurs are concentrated, is considered *semiformal*. Currently, there are only a few pioneering Korean wholesalers who aspire to make their

businesses more visible and larger, and thus formal and legal; the majority of the wholesalers, including those with the high capacity necessary to expand their businesses into first-line brands, continue to carry on their businesses in a semiformal way, particularly in terms of taxes, employment, and subcontracting to sewing workshops. The informality exhibited in the management of Korean businesses is closely related to factors inherent to Argentina's politics and economy, such as government regulations, policy changes, the economic situation, and the ability to import goods, among other variables, as this comment clearly shows:

It doesn't depend only on the decisions of individual entrepreneurs. I would love to operate in a formal way, but nobody does it. First of all, the government doesn't monitor the sector. The fabrics are imported, so activities depend on the customs office, import policies, and the dollar exchange rate. Many fabric companies do not declare imported fabrics fully as Argentine customs is quite corrupt. The problem starts there. We have to buy fabrics. Depending on which government is in power, there are too many different policies on the dollar exchange rate and imports. In this context, it's just impossible to plan for the long term.<sup>12</sup>

My findings are particularly relevant for developing countries as they reflect conditions typical of them. Entrepreneurs in Argentina face severely constricted access to capital, limited access to utility infrastructure, inefficient judicial systems, politico-legal turbulence, and impoverished markets; avoiding significant sunk costs allows them more latitude for creativity and flexibility. This is a situation common across emerging economies (Siqueira et al. 2016). Transitioning from informal to formal markets involves fundamentally changing the way a business operates—a move from a system based on trust and word-of-mouth to one based on detailed contracts that comply with existing law.

In theoretical terms, previous explanations and frameworks on

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12. Sang-In Go (age 54; Korean Argentine; migrated in 1983), interview by author, via Kakaotalk, December 3, 2021.

informality help in the interpretation and understanding of informal management in Korean garment businesses. Diverse factors such as industry conditions (Siqueira et al. 2016), the political and economic environment of a developing country (Williams and Shahid 2016; Ilyas et al. 2020), collective action and legitimacy (Lounsbury and Glynn 2001; Webb et al. 2009), and necessity/opportunity-driven motivations (Williams 2007) have all contributed to the informal business management model adopted by Korean entrepreneurs.

My research shows that *semiformality* has been a by-product of the context and circumstances of the sector and the country more than an ethnically led practice. Complying with the minimum to satisfy state controls and regulations is a pattern broadly reflected in my data, as it is, allegedly, in many other sectors of the country's economy. The cost of moving to a wholly formal market seems to remain too high, and the benefits too sparse. The high concentration of Korean businesses in the semiformal commercial garment sector reflects the complex issues and relations of a struggling developing economy, more than an ethnically based style of management or decision-making.

To reduce costs, informal firms use such tactics as importing parts without paying duty, not formally registering employees to minimize labor expenses, and avoiding paying sales tax (Siqueira et al. 2016). The assumption that through such cost-reduction tactics informal firms will be better off than their formal counterparts may guide business decisions for entrepreneurs in informal firms in terms of improving the future of their organizations and competing with formal firms (Siqueira et al. 2016). Yet as several interviewees indicated, this is a mistaken assumption, as while the semiformal management approach of Korean wholesalers returns rapid economic profits in the short term, those rewards come at the price of seriously constraining future growth and opportunities.

It is also worth underlining the relationship between Korean semiformal/informal business activities and the limits to their integration into the host society. Semiformal management not only prevents their transition into advanced business opportunities available for larger and formal companies but also hinders Argentines from generating more

positive images of Korean business communities. As expressed through the interviews, if social integration is to become a widespread and ultimate goal among Korean Argentines, this perspective should be given more thoughtful consideration.

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