CHAEBOL AS A SPINE OF SOUTH KOREA IN ECONOMIC FIELD

Presented by Group 7

OVERVIEW

BEFORE 1960

After the end of Korea War in 1953, South Korea received a subsidy from the United States, but it occurred the corruption and fell to the Chaebol group.

1960-2000

Began to recover by the financial support and investment from USA. However, the economy was still in dire condition.
Park Chung-hee declared 3 sets of economic policies in order to turning South Korea into developed country.

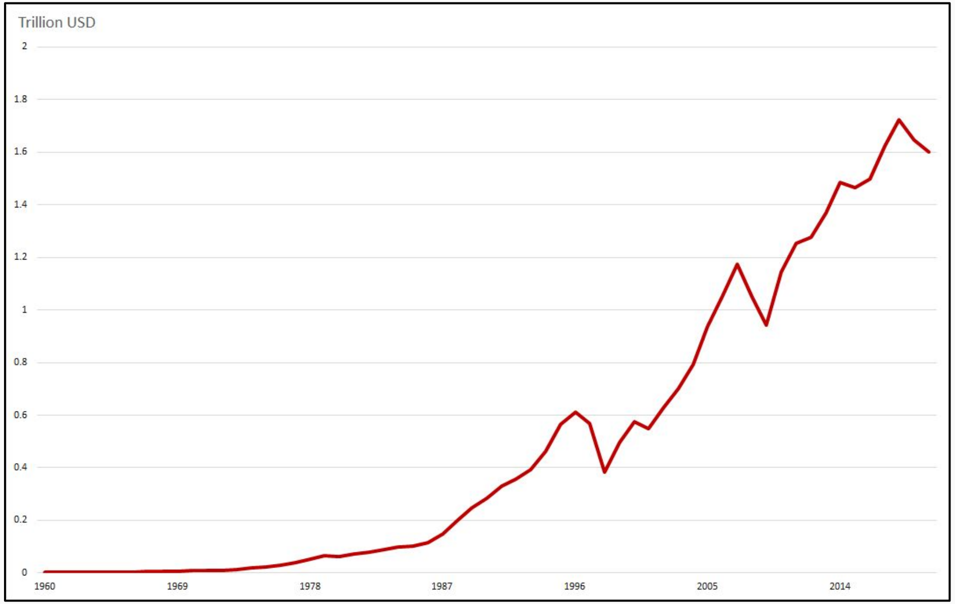
POLICIES

Policies	Year	The essence of the policies
1st set	1961-1966	Export-led industrialization
2nd set	1967-1671	Expanding the base of the project to create larger export industry
3rd set	1972-1976	Developing the heavy industry

Depression in 1990s caused some company in chaebol gone bankrupt. A lot of financial institutes faced non-performing loan. Foreign creditors decided to withdraw their fund and not to renew short-term loan. South Korea was forced to accept a $57 billion from the IMF causing a **recession of 5.8%**. KoR needed an economic reform which focused more on Chaebol group.

AFTER 2000S

- Focusing on promoting their culture.
- Supporting more in tourism and service businesses.
- Announcing an industrial development plan by investing in IT industry in 2000.
- Reducing economic disparities between the rich and the poor in 2005.
- Developing the internet and technology in 2010 in order to be one of the leaders in the future.
- Maintaining free trade agreement policy in 2011.



GDP in South Korea in 1960 - 2020

IDENTIFICATION OF KEY ISSUES

ASIAN FINANCIAL CRISIS

- The Asian Financial Crisis affected **export potential** of South Korea in **1990s**
- Some **Chaebol groups** continued to go **bankrupt**
- The government had to **recover assistance from the IMF** in 1997

THE PROSECUTION

- In **2008**, Lee Kun Hee, *CEO of Samsung* was prosecuted for **tax evasion and embezzlement**
- In **2012**, Chey Tae Won, *CEO of SK Group* was prosecuted for embezzlement in order to **conceal trade loss**

SAMSUNG FACES DIFFICULTIES

- Lee Jae Young, Samsung Chief Executive, was prosecuted for **embezzlement and bribery**
- The chief **paid for the foundation** to **get the merger approval** from the government

IDENTIFICATION OF KEY ISSUES

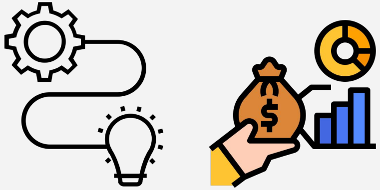
01
SOUTH KOREA GDP

~80% OF SOUTH KOREA GDP CAME FROM THE CHAEBOL GROUP

Characterized By

- Centralized Planning
- Paternalistic Leadership
- Aggressive Entrepreneurial Orientation

02
R&D INVESTMENT



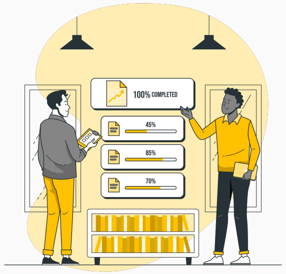
CHAEBOLS CONTRIBUTE A LOT TO THE GROWTH OF R&D AND INNOVATION IN KOREA

- **R&D investments** are major device of organizational learning influencing **diversification**
- Building up the **absorbing capacity** which enables to **access the potentials and successfully exploit** new **business opportunities**

IDENTIFICATION OF KEY ISSUES

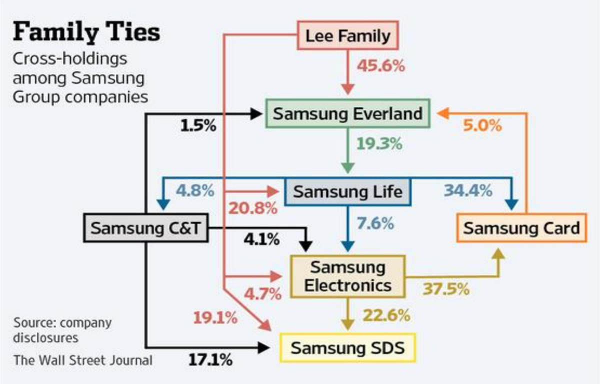
03
DIVERSIFICATION

- The diversification of chaebols is **unrelated** because they diversify in radically different markets even if they use the same brand.
- There are some factors that push diversification
  - **Internal factors** → Economies of scope and scale
  - **External factors** → The market opportunities



04
MULTIPLEX TIES

- The multiplex ties between Korean business groups strengthen Chaebols position in the market. However, the greater is the **separation**, the greater will be the potential **misalignment** between the controlling influence and the ownership in chaebol subsidiaries.



GOVERNMENT/STATE STRATEGIES, POLICIES AND LEGISLATION

In 1960s to 1990s

After the president "**Park Chung-hee**" took the state to suppress corruption from the Chaebol group and elevate the economy.

In 1961, he established the **Economic Planning Board (EPB)** that in 1962 introduced the first series of five-year plans for Korea's development.

Economic Planning Board (EPB)

The core was a policy of **subsidizing the private enterprises** that were able to achieve increasingly greater levels of export or of substituting domestic production of imports.

The government provided production plans for the Chaebol Group under the support of state bank loans, the Chaebol Group has grown rapidly.

Thus, public enterprises in Korea grew at an annual rate of 10 percent and the share of these enterprises in **GDP grew** from slightly over 6 percent in 1963 to more than 9 percent in 1980.

Due to the rapid growth of the economy, **inflation** was occurred in the 1980s. **So, the government has to focus on reforming the Chaebol group in order to increase the transparency of Chaebol's operations**

GOVERNMENT/STATE STRATEGIES, POLICIES AND LEGISLATION

AFTER 2000s

In 1993, **Kim Young-Sam** was the first president after transforming the administration from autocracy to democracy.

He pledged to limit Chaebol' s power and role also keep the Chaebol from doing illegitimacy.

In 2013, the government announced **the creative economy action plan** in order to **support SMEs and eradicate their financial barriers** that were affected from expanding Chaebol' s market.

The current President **Moon Jae-In** has built the assurance for South Koreans and gain a lot of support after he has pledged to limit power of the Chaebol group by reforming and reducing inequality.