7

EE463 GLOBALIZATION AND INTERNATIONAL DEVELOPMENT

Semester 2/2020

Chabol drives an important role in the economic development of South Korea during 1960s-present

GROUP 7

Members

6204640012 Sirinda Manprasart
6204640343 Pojthawan Somjit
6204640582 Jivasa Pungyam
6204640756 Chanika Prasurtying
6204641374 Pongpak Rotpatchayarak

FACULTY OF ECONOMICS

THAMMASAT UNIVERSITY

April 2021

A very interesting topic. Good overview and conclusion. The issues section should be more concise, avoid repetition. The lessons learned should flow from

Overview

After the end of World War II in 1950, the Korea War occurred and separated the country in two parts that were North Korea and South Korea.After the end of Korea War in 1953, the economy of South Korea was ~~decreased sharply~~ devastated and the South Koreans were poor. Therefore,the government encouraged them by letting them cultivate and produce their own foods including distributing foods which they received from foreign aid. Even if South Korea received a subsidy which was supported by the United States in order to restore from getting damaged, it did not go to the South Koreans because of corruption under the President Yi Seung-Man. The money from corruption fell to the Chaebol group which was a large and powerful commercial group in South Korea that was established after World War I.

After being one of the poorest countries in the world due to Korean war, South Korea's economy began to be recovered more and more by the financial support and the investment from the USA. However, its economic situation and society was still in dire condition. Economic growth rate was still lower than the population growth rate. The savings rate was only 3 percent and the financial support, 383 million dollars, was counted to be 14 percent of its GDP in 1957.

In 1961 Park Chung-hee was ruling the country as the head of military dictatorship. He was seeking the way to push South Korean into a developed country. He began by declaring a series of economic policies which brought rapid economic growth and industrialization to its country and it is said to be an economic miracle called the Miracle on the Han River. ✓

The first pack of policies was enforced between 1961 and 1966 that focused on the export-led industrialization strategy. set? Export-led industrialization is the economic strategy attempting to speed up the industrialization of a country by exporting the comparative advantages goods of its country and the industries that produce this export may receive the governmental subsidies and be able to access the local market.

The second pack of policies was enforced between 1967 and 1971 which focused on expanding the base of the project to create a larger export industry in order to be able to have the ability to compete in the world market with an expedited fund raising and foreign investment.

In1960, the South Korea administration concluded that self-sufficiency in steel and construction of steelwork were essential to economic development and prior 1968 South Korea had not possessed a modern steel plant which made some skeptical of Republic of Korea Government (KoR) for investment by both of foreign and domestic businesses. Despite the skepticism, POSCO was established in April,1968 as a joint venture between KoR and the Korea Tungsten Company. The production began 4 years after the company's inauguration which it was in 1972 when the last pack of policies under the control of Park Chung-hee was enforced which ended in 1976. This policy focused on developing the heavy industry. By enforcing this policy, South Korea turned to produce capital goods such as machines, cars, trucks, electric appliances, chemical products, etc. After then, South Korea had had the heavy industry which is one factor that drives the economy of South Korea as you can see in the graph that after 1970, its GDP started to grow before the rapid growth in 1985.

/transformed

South Korea's rulers in the third and fourth republic era included capitalists, soldiers, high-ranking government officials, and foreign capitalists especially the USA that colluded with the military in shaping up the development plan to achieve the goal that is turning South Korea to be an industrial society in capitalism. The group of capitalists accumulated capital in an era when the Americans supported the country and joint ventures with US companies to build industrial businesses based on their export manufacturing strategy since the 1960s and it received numerous government support for the rapid growth of industrial businesses. As a result, these capitalists became the great economic influences of the country such as Samsung, Hyundai, Daewoo, etc. which combine together as a Chaebol group. Chaebol is one of the KoR strategies used for developing South Korea to be one of the developed countries. The program is that KoR will choose the company in each industry that could lead the economic development of the country. In the sense of economic development, political conditions have been important supportive measures that will result in early or late achievement of goals because as the role of the government is that it should be the one who decides how the resources should be allocated. In the case of South Korea, we see that the accomplishment in economic development is the results of allocation of the resources to a certain number of companies.

The 1990s is the depression ~~range~~ period of South Korea when the domestic bank expanded lending to a Chaebol group which in 1996, the world electronic exporting had ~~been~~ slow ed down and some companies in the Chaebol group had gone bankrupt. A lot of financial institutes faced non-performing loans as a result of a huge lending to the Chaebol group. At the same time, the foreign creditors started to withdraw their fund and decided not to renew a short-term debt to South Korea. In the late 20th century, South Korea was forced to accept a $57 billion bailout from the IMF causing a recession of 5.8% in 1998. KoR needed an economic reform which focused more on the Chaebol group. After then, the South Korea economy was once successful to get back its economic growth at 10% as a result of its successful economic reform. Right here, the wealth of Superchaebols had been increased which their debt-to-equity ratio had also decreased.

After 2000, South Korea focused on promoting its culture also selling its styles to the nation.Moreover, South Korea supported more tourism and service businesses.At the same time,

please provide space between the period and the next in 2003, the President Roh Moo-Hyun announced his policies which were his government will adjust the quality of life, participation in social welfare, political decentralization, and national development in equality. In the past, South Korea was monopolized by the Chaebol group.

In 2005, the government emphasized the policy of reducing economic disparities between the rich and the poor. In 2000, the President Kim Dae-Jung has announced industrial development plan by investing on the fundamentals of IT industry, campaigning for teachers and students to have computers to use in every classrooms, supporting e-learning, and developing online games also cyberspace. Furthermore, in 2010, the government has developed a lot of the internet and the technology by creating a domestic IT hub, building a smart city as a model before distribute to other regions in order to be one of the leaders in the future that AI systems and robots will play a crucial role in our routine activities.

In 2011, South Korea maintained free trade agreement policy with various countries. This policy was another driving force for domestic industrial reforms especially in industries that were protected by the government such as the pharmaceutical and medical products industry.

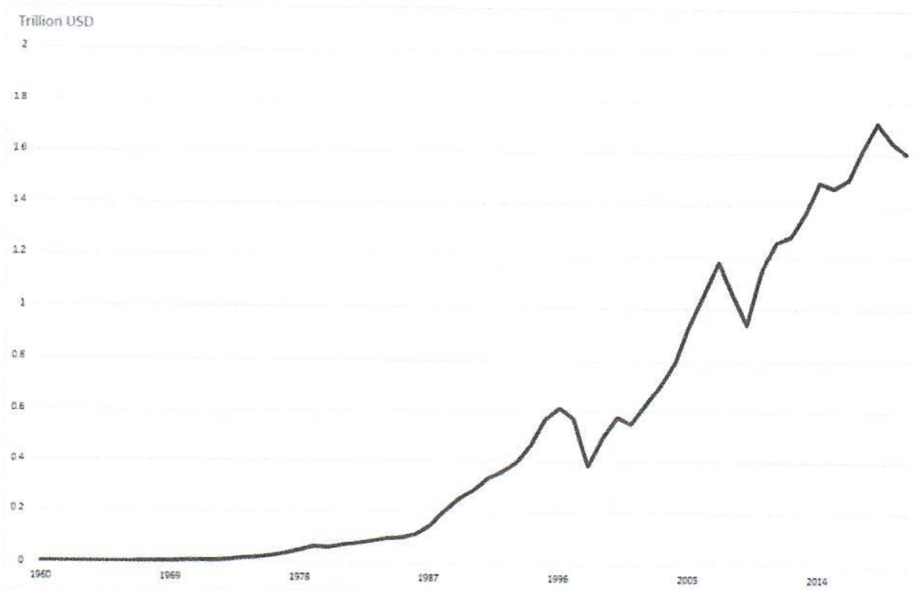

Figure A-1 : GDP in South Korea in 1960-2020

good overview of the context

Avoid numbering

Identification of the Key Issues

1) Big Tech Company

Samsung is the most profitable among the Chaebol Group. Over the past eighty years, Samsung has diversified to include electronics, insurancem ships, luxury hotels, hospitals, amusement parks, and affiliated universities. Moreover, 14 percent of South Korea gross domestic product (GDP) is from the most recognized affiliate of Samsung which is Samsung Electronics.

Hyundai has grown vastly with the dozens of affiliates across the automotive, shipbuilding, financial, and electronic industries. After the financial crisis, Chaebol Group separated into 5 main firms in 2003. The most standout, on Hyundai are Hyundai Motor Group and Hyundai Heavy Industries which are the third-largest carmaker and the largest shipbuilding company in the world, respectively.

SK Group is best known for SK Telecom which is the largest wireless carrier in South Korea. Also, SK Hynix is the second-largest maker of memory of chips of the world.

LG or Lucky of GoldStar started the business in the chemical and plastic industries in 1974. The company has invested in the development of the consumer electronics, telecommunication networks, and power generation since the 1960s which is in the chemical business, including cosmetics and household goods. Moreover, LG split to GS which is the Chaebol core business about energy, retail, sport and construction.

Lotte firstly brought a chewing gum company in South Korea in 1967. It focuses on the food products, discount and department stores, hotels, and theme parks and entertainment, also finance, construction, energy, and electronics. Additionally, Lotte Confectionery is the world's third-largest gum manufacturer.

rather than listing these firms, please provide a discussion of how these firms were able to address the challenges and develop into large companies

2) It is clear that chaebols contribute a lot to the growth of R&D and innovation in Korea (Sungchul, 2010). Moreover, R&D investments have been regarded as a major device of organizational learning influencing diversification (Penrose, 1959). Other scholars pointed out that a firm needs to diversify its knowledge base through R&D investment in order to build up the "absorptive capacity", which enables firms to assess the potential and successfully exploit new business opportunities. It also facilitates entry into a new business area (Cohen, 1990). Moreover R&D capital accumulated in a firm's primary industry influences diversification decisions because firms attempt to transfer intangible assets built through R&D activities to new

areas (MacDonald, 1985). In conclusion, R&D development is really important for chaebols, since it puts the basis for diversification.

Table 1 . . . . .

R&D activity	Small and medium enterprises 1997	2000	2003	Large enterprises 1997	2000	2003
R&D expenditure						
Amount (won billions)	1,090.2	2,106.4	3,425.4	7,755.1	8,148.2	11,084.2
Percentage of sales	2.82	3.14	3.57	2.07	1.81	2.05
Number of researchers						
Total	17,703	36,494	52,332	56,990	57,839	71,698
At the doctoral level	474	1,543	2,291	3,613	3,878	5,562

Tell a bit about the figures in this table

3) As a matter of fact, they account for the greatest part of the GDP of the country (Around 80%). In the table below, there is shown the shares of chaebols in the Korean GDP for 2009, 2010 and 2011, first for the first 20 largest groups and second for the first 5 largest groups.In addition, they are characterized by a centralized planning, paternalistic leadership and an aggressive entrepreneurial orientation.

Table 2 . . . . .

Table 1.3: Chaebols and their shares within the Korean GDP[3].

		2009	2010	2011
Asset / GDP	20 largest groups	75.3%	78.6%	85.2%
	5 largest groups	46.5%	49.9%	55.7%
Sales/ GDP	20 largest groups	75.3%	78.6%	85.2%
	5 largest groups	46.5%	49.9%	55.7%

4) The multiplex ties between Korean business groups strengthen Chaebols position in the market. In fact, in all the chaebols, the most important thing is to keep the power within the hand of the family members without shifting it to third parties, no matter how many subsidiaries the company gets or acquires. In theory, the greater is the separation, the greater will be the potential misalignment between the controlling influence and the ownership in chaebol subsidiaries. For example,Samsung C&T, Samsung Electronics and Samsung Life have a high level of cumulative family ownership. Moreover, they are material contributors to family wealth and show little separation between control and ownership.

~~5)~~ The diversification of Chaebols has begun since, the 1950s, when they acquired other enterprises and failing firms as well. The diversification of chaebols is unrelated because they diversify in radically different markets even if they use the same brand. There are several reasons for diversification, such as avoiding the risk of a single product business since they diversify the portfolio, diversifying the risk.

Moreover, there are some factors that push diversification that are externals or internals. The internal ones are the economies of scope and scale.Talking about the economies of scope, it is demonstrated that the performance of diversification starts to decrease when the gains from the economies of scope that the company is achieving, by diversifying the business, are overtaken by the costs of the organizational complexity, the financial resources available that the company can invest, risk minimization, and growth objectives. On the other hand, the external factors that push diversification are the market opportunities that can be exploited, demand decrease in original business, high transaction costs and public policies, so opportunities not only from the environment but also from the regulator.That is why it is important to be careful about the complexity of managing such different businesses.

Rather than repeatedly mentioning the chaebol / firms, please discuss:
- what issues/challenges they faced
- how they addressed the issues,
- the outcome of their efforts

= Please focus on gov't policies /strategies and move others & sections to ~~issu~~ issues section

Government/State Strategies,Policies and Legislation

After World War II in late 1945, Korea's plight was quite severe, even though it has received funding from the United States because of corruption in the period of President Syngman Rhee, resulting in the funding was not being distributed as it should have been but collected in patches only some groups like Chaebol. As a result, there was a coup d'état under the decision of Major General Park Chung-hee in order to preserve the economy and eradicate the corruption making South Korea return to the commissary regime.

One of Park's first acts was to elevate the status of economic planning in Korea. In 1961, he established the Economic Planning Board (EPB) that in 1962 introduced the first series of five-year plans for Korea's development. State-owned banks were created to help implement the government's development plans, and laws were passed to force private banks effectively also to become agents of their implementation.

In the period of military leadership, Park has partially prosecuted corrupt groups, but has not been able to overthrow Chaebol Group because even though Chaebol was involved in corruption, it cannot be denied that Chaebol plays a significant role in elevating Korea's economy. Thus, Chaebol became the foundation for economic reforms with the government. Over the next years, the Korean government became, in the words of former EPB member and Deputy Prime Minister Sakong Il, an "entrepreneur-manager" (Sakong 1993, 27).

Then, Park encouraged the formation of more Chaebol by 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. Moreover, Park also participated in attracting foreign investors from securing foreign loans in certain projects for companies in the Chaebol Group. Thus, between 1963 and 1977, 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 (Sakong 1993, table 3.4). This work has earned President Park Chung Hee the honor of being "Father of the Chaebol".

Due to the rapid growth of the economy, inflation hit 15% annually in the 1980s. This caused the state to focus more on stabilizing the economy, resulting in higher domestic savings rates and lower foreign debt burden, but this still failed.

In the 1990s , the Asian currency crisis severely affected South Korea's export potential and some groups of Chaebol continued to go bankrupt. Since South Korea's currency (Won) is

could be moved to the issues section

the target of speculation, the South Korean government had to recover financial assistance from the IMF on December 4, 1997.

In 1998, the South Korean economy contracted to a negative 5.8%, prompting the South Korean government to accelerate economic reforms, especially the Chaebol Group reforms: the removal of debt guarantees between Chaebol's affiliates, financial restructuring, and improving the accounting system of the Chaebol Group to increase the transparency of Chaebol's operations.

Until 1999, the South Korean economy recovered rapidly, with a growth rate of up to 10% due to the success of serious economic reformation as well as the reformation of Chaebol Group that began to have a more stable financial position and lower the debt to equity ratio (Debt to Equity Ratio).

As described earlier,after South Korea had completely transformed the administration from autocracy to democracy as well as the first direct presidential election was held in the 1980s.In 1993,Kim Young-Sam,the former president,pledge to the South Koreans to keep the Chaebol from doing illegitimacy and limit their power and role in South Korea.On the other hand,it was too difficult to accomplish this goal because the Chaebol played a crucial role in the economy.Later,there were still people who have the administrative power in the Chaebol have acted illegally,be it corruption,bribery or even tax evasion.Lastly,they got exoneration.

To give an illustration of illegitimacy which the Chaebol has done,after the Asian financial crisis in 1997 that happened under the Korean government of President Kim Dae Jung in the inability to manage the financial sector.For this reason,Daewoo Group went bankrupt with debts about 80 trillion won.Furthermore,in 2006,Kim Woo-Jung,the chairman of Daewoo Group has been arrested because of fraud,illegally borrowing,and smuggling.

In 2008,Lee Kun-Hee,CEO of Samsung,was prosecuted for tax evasion and embezzlement in which he had been prosecuted for bribing a former President Roh Tae-Woo in 1995.In 2012,Chey Tae-Won,CEO of SK group,was prosecuted for embezzlement more than 40 million dollars in order to conceal trade loss.However,Chey Tae-Won got pardon in the Korean government of President Park Geun-Hye.

Last but not least,Samsung which became the world's largest mobile phone maker face difficulties again by having the scandal of the chief executive Lee Jae-Young.Lee Jae-Young has been prosecuted for embezzlement and bribery which linked to the President Park Geun-Hye that was Lee Jae-Young paid 36 million dollars to the charitable foundations operated by a close friend of President Park Geun-Hye in order to reward for her influence in getting the merger approval from the government.

Could move to

Due to the fact that the Chaebol group took part in the economic development of South Korea and caused an impact on the small entrepreneurs including the employment.Since,the Chaebol group has expanded its market from the traditional industries to other industries.As a result, the government attempted to support small entrepreneurs by announced the creative economy action plan in 2013 in order to support SMEs and eradicate regulatory also financial barriers to SMEs.

After,Park Geun-Hye was arrested because of receiving bribes from the chief executive of Samsung so that Moon Jae-In took a position of the president in 2017 was increased South Koreans' hope as he has promised that he will reform and reduce inequality by limiting the power of the Chaebol group.By doing this,Moon Jae-In can gain a lot of supports from South Koreans.

In conclusion, the Chaebol group has a strong foundation and influence on South Korea by observing the way of living of South Korean citizens who are involved with Chaebol in one way or another whether their cars, electrical appliances, or even the foods that they eat in every day. This is a guarantee that Chaebol Group is the main driver of South Korea's economy, perhaps even greater than the South Korean government itself. Hence, there are only two ways the government can tackle corruption: control and minimize, but there is no way to eradicate them because of the difficulties in keeping Chaebol's strong connections under control. To sum up everything that has been started so far, the role of Chaebol from the past to the end and is expected in the future will continue to remain the spine of the nation.

Rather than bullet points, please provide a narrative for lessons learned. It should flow from the previous sections

Lesson Learned

-To drive overall economic growth for the whole country. We need to concentrate not only on one aspect but also on the other aspects that affect the whole economy.

-When the government gives too much power to one firm to monopolize one industry. It may drive the nation to be in a terrible situation when the country is facing an economic crisis or financial crisis.

-Diversification is one of the good things that the business should apply which can drive significant economic growth of the country. However, at the same time, it is necessary to have good management and understanding in each firm since it is very different in every aspect of nature, culture, or even people.

-As we can observe from the successful firm, Chaebol Group, they mainly concentrate on investing and improving in the R&D sector. So, we can simply conclude that investing in R&D is one of the most important things for the firm to increase the business opportunities and potentials for each firm.

-Focusing on allocating the available resources to only a few people instead of allocating to the entire country evenly is unavoidable which some problems will follow later.Therefore, the adjustment of the private sector and the public sector was very important and indispensable.

-Each business needs to be as transparent as possible and reduce Cartel in order to minimize corruption that comes from the Chaebol group and increase the opportunities for other entrepreneurs.

-Using a family membership system which may occur an unequal profit-sharing and can imply that it will cause income inequality since the wealth focused on the Chaebol group, but the citizens were not involved and received any benefits.

-The authority of the Chaebol group has resulted in increasing a long-term inequality in society such as cronyism and oppression which resulted in inequality in education and the economy afterwards.

-It is very difficult for SMEs, small entrepreneurs, and Startups to grow fully. Although the government issued the policies and the action plans because the Chaebol group expanded to other businesses widely and nobody can take their place.

Conclusion

From the past to the present, Chaebol Group has been with South Korean society for a long time. It has also played an important role in Korea's economic development since the 1960s to the present with the support of a policy-driven from military government established the Economic Planning Board (EPB) or the first series of five-year plans for Korea's development No.1 and followed by No.2 and No.3.

The main driving businesses of the South Korea economy are from Chaebol's Big Tech Companies known as Super Chaebol: Samsung, LG, Hyundai, SK Group, and Lotte. Additionally, Chaebol has the important role as the big supporter of R&D research which is the important part making the economy grows larger. Chaebol group also makes the South Korea GDP grows up to 80%. Furthermore, the diversification system of Chaebol is the significant part in the business management and drives the economics which is another part that makes Chaebol become the spine of South Korea in the economic field.

Although Chaebol has been the main driving force of South Korea's economy, it also brought some problems to the country such as Asian Financial Crisis in1997, inequality to the society and there is also corruption occurring among the Chaebol groups. The government has been seeking for the solutions to deal with the problems but it couldn't get rid of it because Chaebol has been deeply rooted for the South Korean economy. In other words, if the government gets rid with those problems it is like destroying the country's economy.

From all of these elements, we can see that the Chaebol is the real main character driving South Korea's economy. Despite having some administrative problems, South Korea eventually was able to lead the center of the world with the Chaebol as the major force.