

The Impact of Chaebol on the South Korean Economy and Prospects for Future Development

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University of Zagreb
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Master degree in economics

**THE IMPACT OF CHAEBOL ON THE SOUTH KOREAN
ECONOMY AND PROSPECTS FOR FUTURE
DEVELOPMENT**

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Zagreb, September, 2022.

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ABSTRACT

South Korea has one of the fastest growing economies in the world. Although in the 1950s it was one of the poorest countries in the world, in less than a hundred years it became the 12th most developed economy in the world. The main reason for this is the investment in higher education of the population that is at the forefront of technological innovation. The starting point of this thesis is to define chaebols and their importance, not only for the economy of South Korea, but also for other countries around the world. The basis of the economy in South Korea after the Korean War is the so-called chaebol, which is considered a large business conglomerate, that is, a corporation owned mostly by one family. Some of the chaebols are a single corporation, while some consist of groups of companies with the same name. The research was conducted based on the analysis of two world-famous Chaebols – Samsung and Hyundai, and the final results revealed that corporations significantly strengthen the economy of South Korea.

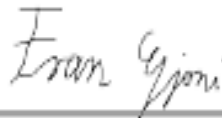
Key words: South Korea; Chaebol; Korean economy; Samsung; Hyundai

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1. INTRODUCTION

Beginning in the late 1970s, during the final years of Park Chung-hee's presidency, South Korea economy took off and sustained two decades of growth, before hitting the roadblocks caused by the 1997 East Asian financial crisis. Its growth was based on a tight connection between the government and business entities, which included direct lending and import restrictions. The government promoted the import of raw materials and technology at the expense of personal consumption products and encouraged savings and investments rather than consumption.

The subject of the research is to describe the important characteristics of the economic state of Korea, including its labor market, main industries and the education sector, to emphasize that at the beginning of the sixties of the 20th century, the state persisted in its export-oriented economic development plans. At first, the main export goods were raw materials and smaller industrial products that were produced in smaller factories. South Korea's economy has experienced extraordinary growth over the past four decades. Since the 1960s, when the GDP level was at the level of underdeveloped African countries, in 2004 South Korea entered the club of countries whose GDP is higher than a trillion dollars and is currently the 12th largest economy in the world. This is where the issue of research took shape, emphasizing how the 1960s witnessed the creation of chaebols, in other words, large private conglomerates, supported by the state, which dominate the business sector of the world economy. The fundamental purpose of the research is to define chaebols, their historical development and dominance in economic sectors, to determine their characteristics and importance for South Korea. The goal is to present an analysis of the current situation, that is, a SWOT analysis, to show the direct influence of chaebols as the main actors of South Korea's industrial growth, putting in the foreground technological progress and the source of creating qualified jobs in the country.

In order to analyze the research issues, this thesis is divided into four main chapters. The first chapter includes an introductory part in which the subject and objectives of the research, the methodology and the structure of the work are presented. The second chapter provides a theoretical overview of one aspect of the topic, namely the country in East Asia - South Korea. First, some characteristics of the country itself will be given, such as location, number of inhabitants and other social characteristics. After that, the economic situation of South Korea is explained in more detail with an emphasis on its labor market, unemployment rate and main industries. At the end of the second chapter, the educational sector of South Korea is also

clarified. The third main chapter touches on the topic of the thesis itself and explains what chaebols are, how they have developed throughout history, and what is their effect on the economy of South Korea in general. The fourth chapter includes the application part, i.e. a case study of two famous chaebols in the world - Samsung and Hyundai, where their characteristics and operations and further future development of chaebols will be presented. In the last, fifth part, the main results of the theoretical part of the work and the case study are summarized, and concluding thoughts on the entire research issue are presented.

The methodology used in the preparation of this thesis mostly referred to qualitative and quantitative methods used to reach final conclusions: inductive and deductive methods, statistical methods, and methods of comparison and description. In addition to the above, a case study that studies the topic of the paper is also presented. Also it is important to explain, through a case study of chaebols, how two multinational giants developed on the Korean and world markets.

2. BASIC CHARACTERISTICS OF SOUTH KOREA

According to web page History Channel South Korea was formed in 1948 when the Korean Peninsula was divided into southern (capitalist) and northern (communist) part. Today's borders of the two Koreas were defined after the Korean War ended. The president of the State is Moon Jae-in, who was elected on May 9, 2017 for one term, starting on May 10, 2017. Geographical location of South Korea is in East Asia, in Korean peninsula and occupies its southern part. Total surface is 99,720 km², and ranks 109th in area the world.¹

Many linguists classify Korean as a group of Altaic languages, although according to some this language is an isolate, which means that it cannot be associated with any language. The Korean language uses the Hangul script, which is the work of King Sejong (1397-1450) of the Joseon Dynasty. King Sejong or Sejong the Great was the fourth king in a row in the Joseon dynasty.² Koreans are very proud of this achievement of his creation of the alphabet, since Hangul is an alphabet that is very easy and fast to learn and use. It consists of 14 consonants and 10 vocals. It can visually display almost all sounds made by humans or found in nature.³ Every year, UNESCO awards the Sejong Literary Prize, for people who have significantly contributed to the spread of literacy.

The national flag of the Republic of Korea consists of a white background with a blue-red heavy sign in the middle, around which are four black trigrams in the corners. The white background symbolizes light, purity and ethnic characteristics of peace. The heavy sign symbolizes yin and yang (the idea that everything created in the universe moves through the interaction of yin and yang).⁴ The four trigrams signify change and development, based on combinations of trigrams.

South Korea is also an extremely popular destination for many tourists, especially due to its popularity in music, culture, gastronomy and other attractions. With its simple lifestyle, bustling city culture and reasonable cost of living, South Korea is a popular destination not only for vacations, but also for living. The capital is Seoul, fifth largest city in the world, particularly attractive and popular for tourism. According to web page World Population Review Seoul

¹ History.com, www.history.com/news/north-south-korea-divided-reasons-facts (accessed on 24 September 2022.)

² BIG Language Solutions, <https://biglanguage.com/blog/the-korean-language/> (accessed on 24 September 2022.)

³ Ibidem

⁴ Asia Society, <https://asiasociety.org/education/taegeuk> accessed on 24 September 2022.)

population in 2022 was 9,975,709.⁵ The city has everything that local and foreign visitors and tourists can imagine, and even though it is big, it is extremely easy to move around and explore it. Some specifics about South Korea will be shown in Table 1.

Table 1: South Korea – country profile

SPECIFICS	DESCRIPTION AND CHARACTERISTICS
Geographical location	• Eastern Asia that occupies the southern part of the Korean peninsula, which is located between the Sea of Japan (East Sea)
Political system	• Presidential representative democratic republic, specified by the constitution • Legislative power is vested in both the government and the National Assembly
Business & Economy	• The Central Bank of South Korea is based in Seoul • The Korea Stock Exchange opened its market March 1956 with twelve listed companies
Currency	• The Korean won (KRW) • Its users denote the won by using the symbol ₩, as in ₩1,000 • Since 1950, it has been administered by the nation's central bank, the Bank of Korea

Source: made by author, Nations Online, www.nationsonline.org/oneworld/korea_south.htm (accessed on 06 September 2022.)

The Korean Peninsula lies in the middle of Northeast Asia and is surrounded by China in the west and Japan in the east. The peninsula is 950 km long and 540 km wide and has an area of 223,405 square kilometers, of which 100,284 square kilometers is occupied by the Republic of Korea. The northern part of the peninsula is connected to the Asian continent. The peninsula is mostly dominated by mountains, while the plains occupy only 30% of the entire territory. Mountains with an altitude of over 1000m make up 15%, while about 65% make up mountains below 500m.⁶

⁵ World Population Review, <https://worldpopulationreview.com/world-cities/seoul-population> (accessed on 24 September 2022.)

⁶ Ministry of Culture, Sports and Tourism and Korean Culture and Information Service, www.korea.net/AboutUs/ (accessed on 01 March 2022.)

Picture 1: South Korea map



Source: World Atlas, www.worldatlas.com/maps/south-korea (accessed on 01 March 2022.)

The largest mountain range on the peninsula is Tebeksan, which has a higher altitude on the east side and forms the skeleton of the peninsula. Large and small rivers all flow from the high mountain peaks in the east and flow towards the seas in the west and south, creating fertile plains with arable land. The climate and people's lives depend a lot on this eastern mountain range. Transport is much more difficult for people living in these areas, so the development of this area is much lower than in the west.

The Korean Peninsula has a temperate climate and four seasons. Under the influence of the continental climate, there is a significant difference in temperature during the summer and during the winter. It is wet and warm during the summer, and cold and dry during the winter. In the last 30 years, summer temperatures ranged from 20.5 to 26.1°C, winter temperatures from -2.5 to 5.7°C.⁷ Recently, due to global warming, the Korean Peninsula is showing signs of transition to a subtropical climate.

South Korea has around 50,924,000 inhabitants. The population is extremely homogeneous, in terms of ethnicity - 99% of the people are ethnic Korean. However, the number of foreign workers and other migrants is gradually growing. Largely of government concern, South Korea has one of the lowest birth rates in the world at 8.4 per 1,000 inhabitants.

⁷ Ibidem

Social policy synergies between land redistribution and investment in human capital laid the foundations for structural change and economic growth. In 1945, the Republic of Korea was a poor, predominantly agrarian economy that could not attain food self-sufficiency. The war destroyed already meagre economic infrastructure, further depressed the standard of living and deepened dependency on aid, in particular emergency relief. Donations of food and fertilizer from the United States constituted the lion's share of aid between 1945 and 1965.⁸ Grants and technical assistance, mainly for the physical and institutional infrastructure of agriculture and rural development, were prioritized until the mid-1960s when aid, in particular the US share of total foreign capital inflows, began to decrease and an intensive export-led industrialization policy was launched.⁹

Between 1965 and 1989, as foreign aid in the form of grants fell dramatically in both absolute and relative terms, GDP per capita grew by around 7.2% per year on average. Income inequality and poverty rates were reduced dramatically, with Korea outperforming most middle-income countries. By the 1980s, aid had fallen to 0.6% of GNP. The Republic of Korea graduated from the World Bank's lending list in 1995, and became a member of the OECD–DAC in 2010.¹⁰ Success in the Republic of Korea was grounded in synergies between economic and social policies, and across public and private sectors, linked to each other to build human capital, increase employment, and redistribute assets and income across sectors and geography.

2.1. Korean war and the division

Korea was a Japanese colony until 1910. After the Second World War, the northern part of Korea was occupied by the Soviet Union and China, and the southern part by the USA and Great Britain. The Korean War was the first major conflict after World War II. It was a consequence of the tightening of American-Soviet relations, and it ended with the division of Korea into two states.

After various Western nations failed to open up Korea, Meiji Japan obtained a commercial treaty in 1876. During the 1880s Korea signed trade treaties with other outside powers, and U.S. Protestant missionaries began arriving. An uprising against foreigners in Korea in 1894 influenced a Chinese-Japanese war, won by Japan. In 1905 Russia and Japan

⁸ Yi, I.: *Economic and Social Development in the Republic of Korea: Processes, Institutions and Actors*, United Nations Research Institute for Social Development, 2012., pp. 1.

⁹ Ibid.

¹⁰ Chun, H. M., Munyi, E. N., & Lee, H.: *South Korea as an emerging donor: challenges and changes on its entering OECD/DAC*, Journal of International Development, Vol. 22, No. 6, 2010., pp. 789.

fought over Korea, and Japan was victorious. In 1910 Japan annexed Korea, resulting in the bitter hostility between Koreans and Japanese that persists today, including disputes over contested islands.¹¹ During World War II, the 1943 Cairo Conference among the United States, Great Britain, and China declared that the aforesaid three great powers, mindful of the enslavement of the people of Korea, are determined that in due course Korea shall become free and independent.¹²

Soviet troops landed in northeastern Korean ports on August 10. On August 15, Japan surrendered, and the United States, without troops in Korea, proposed the 38th parallel as a military demarcation line, which was accepted by the Soviets. Immediately upon the Japanese surrender, a local Korean group based in Seoul established the People's Republic of Korea and set up political action committees throughout the countryside. The next three years saw intense and complicated negotiations, disagreements, political maneuverings, assassinations, and a deepening of the Cold War, which prevented the United States and the Soviet Union from agreeing on Korean unification.¹³ In August 1948 the Republic of Korea (ROK) was formally established in the South, with Syngman Rhee as president, and was recognized by the United Nations as the legitimate government of Korea. In September the Democratic People's Republic of Korea (DPRK) was established in the North.¹⁴

The North Korean army invaded South Korea in June 1950, quickly taking Seoul and all but the southeastern corner of the country around Busan. During a Soviet walkout, the United Nations (UN) condemned the invasion and was formally the combatant on the South ern side, although most troops were from the United States and South Korea. In November Chinese troops attacked, pushing UN forces south of Seoul to nearly the 37th parallel by January 1951. The war seesawed until an armistice was signed in July 1953, with the final military line, and the new border.¹⁵ The war contributed to the division of both Koreas and more than 10% of the Korean population was killed, and the consequences of the war were also detrimental to the cities, economy and infrastructure. The civilian population was also affected by the Korean War in terms of displacement and family separation. Visits to family members who lived in South Korea were allowed only twice in fifty years.

¹¹ Rosser, M. V. & Barkley Rosser J. Jr.: *Comparative Economics in a Transforming World Economy*, third edition, MIT Press, 2018., pp. 461.

¹² Ibid., pp. 462.

¹³ Ibid., pp 463.

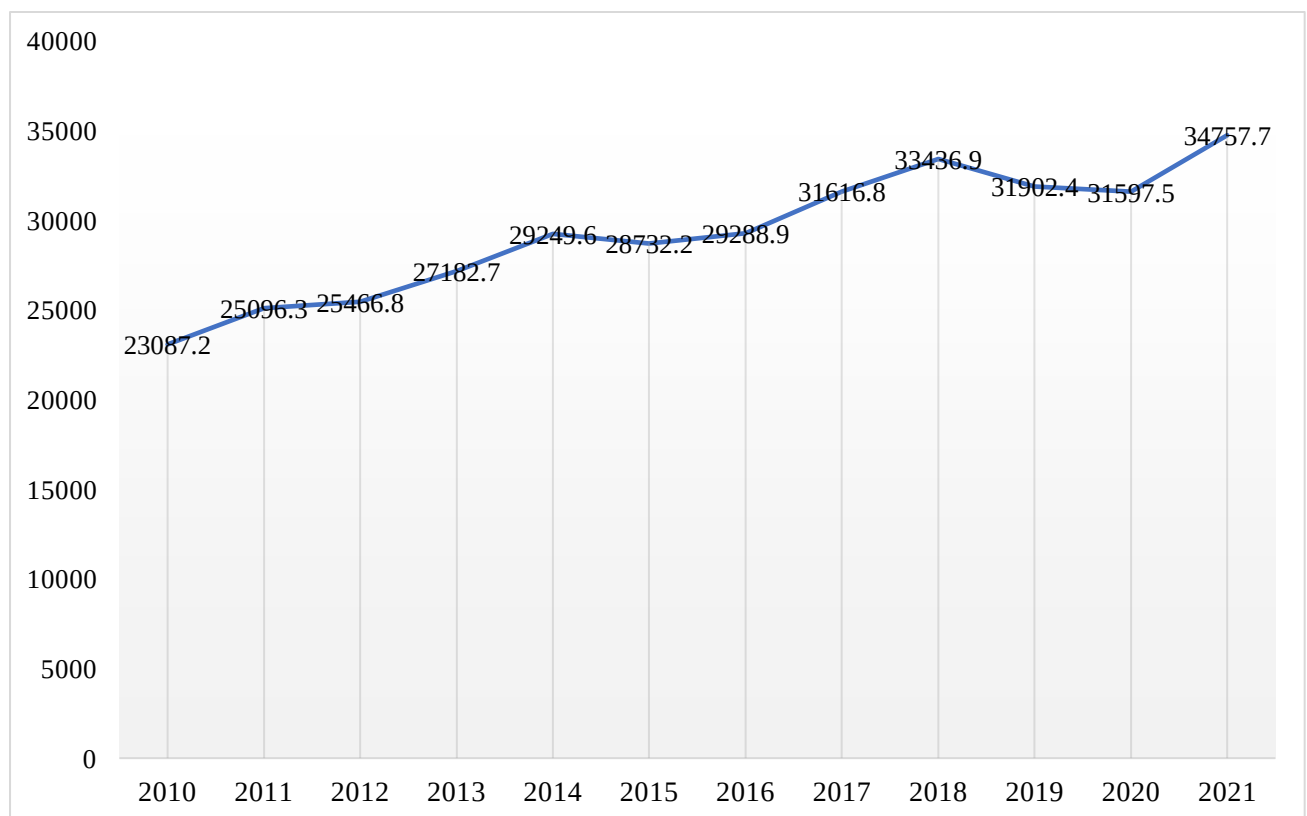
¹⁴ Ibid.

¹⁵ Ibid., pp. 464.

2.2. Economy of South Korea

South Korea's economy over the past four decades has experienced remarkable growth. In the 1960s the level of GDP was at the level of underdeveloped African countries, however since then South Korean economy grew rapidly. In 2004, South Korea joined the club of countries with higher GDP of a trillion dollars and is currently the 12th largest economy in the world. Its growth was based on a strong connection between government and businesses. The government promoted import of raw materials and technology at the expense of personal products consumption and encouraged savings and investments, not consumption.¹⁶

Graph 1: Gross Domestic Product Per Capita for Republic of Korea (USD)



Source: The World Bank Group
<https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?end=2021&locations=KR&start=2010> (accessed on 24 September 2022.)

From the Graph 1 it is evident that in the last 10 years GDP has gradually grown, although a decline is also visible in 2019 and 2020. The Republic of Korea's remarkable economic transformation since the early 1960s has been characterized by fast industrialization and strong

¹⁶ Akgun, O., Cournède, B. & Fournier J., *The effects of the tax mix on inequality and growth*, OECD Economics Department Working Papers, Paris: OECD Publishing, No. 1447., 2017., pp. 21.

economic growth, with the manufacturing sector being a key growth driver. In the early 1960s, the Republic of Korea shifted its economic policy focus from import substitution to export orientation, to support industrialization and economic growth.

The exposure to international export markets and performance-based government support stimulated efficiency improvement and faster productivity growth in manufacturing industries, which successfully underwent diversification stages. The numbers of goods produced expanded along with quality upgrades of existing products. Exporters were able to build up their comparative advantage in labor-intensive manufacturing and then to move to more capital and technology-intensive industries, including electronics, machinery, automobiles, ships, chemicals, and information and communications technology products.¹⁷ The gap of output per worker between the Republic of Korea and United States has decreased rapidly, as the Republic of Korea's lower per capita income, relative to its potential level, has led to higher growth, confirming the prediction of a conditional convergence theory.¹⁸ Cross-country regression further suggests that the Republic of Korea's catch-up to the United States is also attributable to strong investment, lower fertility, greater trade openness, and improvements in human resources, and rule of law.¹⁹ The growth regressions imply that the Republic of Korea has grown faster than high-income countries by many factors, including convergence, due to the low level of per worker output relative to its long-term level as well as favorable environmental and policy factors influencing the long-term potential level of per worker output, to which the Republic of Korea has been converging.²⁰ The Republic of Korea's relatively favorable environment and policy factors have facilitated faster catch-up to the advanced economies than other developing countries with the same level of per worker output over the transition to a higher steady-state level of per worker output. South Korea is known for its rapid and continuous economic growth in the latter half of the 20th century.²¹ The above was supported by the development of the so-called the case of chaebols in South Korea, which were initially supported by the state, and later forced to compete with the rest of the world. It can be concluded that South Korea is an example of how a savings-based economy can generate

¹⁷ Ahn, T.: *An analysis of employment dynamics in the Republic of Korea: The role of temporary work and self-employment*, International Labour Review, Vol. 155, No. 4., 2016. pp. 563.

¹⁸ Ibid.

¹⁹ Ibid.

²⁰ Ibid.

²¹ Ibid.

sustainable growth over time, while increasing the quality of life of its citizens without external debt problems.

2.3. Contemporary development of South Korea

The transformation of South Korea from a poor to one of the most developed countries in the world required significant reforms. Successful government reforms and well-thought-out modern economic policies contribute to continuous GDP growth and improve the quality of life of any state. The following factors shown in Table 2 contributed to a South Korean's enterprises success.

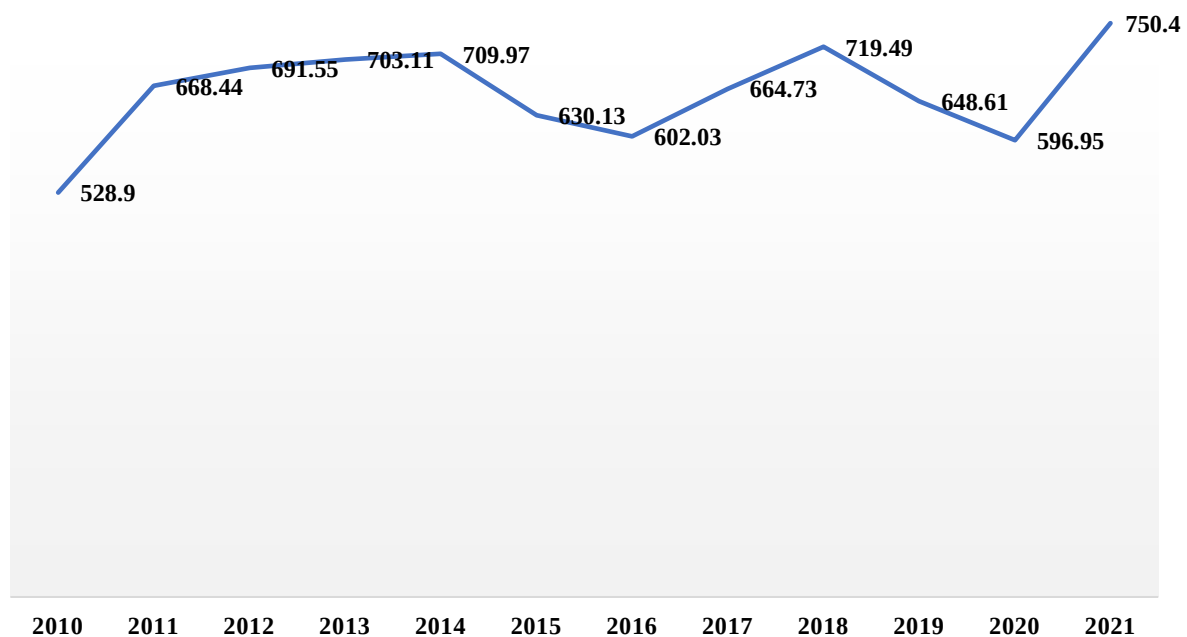
Table 2: Implementation factors of successful enterprises in South Korea

FACTORS	SPECIFICS
Economic development has become a priority	• The management went on to reduce import tariffs, to encourage export growth by attracting exporting entrepreneurs • The result has been a sustained and steady increase in exports and annual GDP
South Koreans are characterized by high performance	• People are also the human resources that have become the basis of economic growth in the country • Highly qualified professionals, including engineers and workers, are especially valued
The fight against corruption	• Almost 17,000 officials were fired, and 4,000 were banned from engaging in any politics and similar activities • International investors have become more active in investing in the country's economy, financially supporting it in its post-war recovery
Changing the tax system	• Certain tax rates have been reduced and investment conditions have been improved • Investors saw the attractiveness and potential in South Korea's economy

Source: made by author, Han, J.: *The Employment Situation of Youth and Policy Suggestions*, KDI Economic Outlook 2020-1st Half. Sejong: Korea Development Institute, 2020., pp. 79.

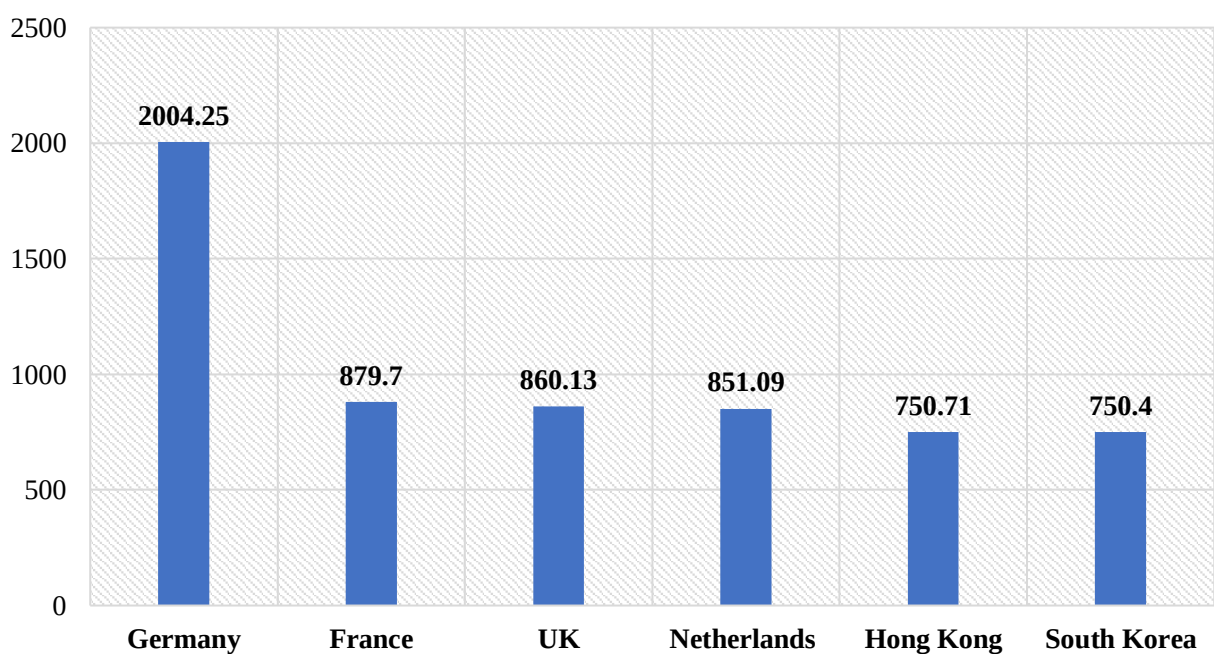
The stable development of the economy largely depends on heredity in the transfer of power, from the family control of major firms and companies that are formally independent. A ban on withdrawing capital abroad was introduced, and all private investments and state resources were transformed to exports and industry. For more than twenty years, South Korea's economy has shown a positive trend. For instance, GDP grows by 9-10% every year, reaching 14% in some peak years.

Graph 2: Exports of goods and services in South Korea 2010-2021 (Billions of US \$)



Source: Macrotrends, www.macrotrends.net/countries/KOR/south-korea/exports (accessed on 24 September 2022.)

Graph 3: Comparison of South Korea's exports of goods and services with other countries in 2021 (Billions of US \$)



Source: Macrotrends, www.macrotrends.net/countries/KOR/south-korea/exports (accessed on 24 September 2022.)

Graph 2 indicates that exports of Korean goods and services are actively growing, which has allowed South Korea to rank 6th in the world in exports of products (Graph3). Although South Korea reached already a decent economic development, they still managed to substantially increase their exports until 2020s, and this kind of growth in exports won't stop any time soon according to the data from the past. South Korea invests their currency in the state economy, as well. Based on the Graph 3, it can be concluded that South Korea is the sixth largest exporter of technology and technological products and example of how an economy based on savings can generate sustainable growth over time, while increasing the quality of life of its citizens without external debt problems.

2.3.1. Main sectors of the economy in South Korea

The country's leading sectors are the automotive industry, petrochemicals, semiconductors, shipbuilding and the steel industry. The government encourages businesses to develop and implement the technologies of fourth industrial revolution, especially in artificial intelligence, robots and telecommunications equipment.

South Korea's modern economic complex is represented by high-tech intensive engineering and electronics, chemical and refineries, light and food industries. The main focus today is on high-tech production. The country has taken the leading position in the world in shipbuilding. New companies are being founded constantly, controlling around 29% of the world's shipbuilding orders.

The country's transformation from poverty to affluence has been phenomenal. South Korea became part of the Organization for Economic Cooperation and Development (OECD) in 1996. There has been no looking back since then, and it is a fast-growing, highly industrialized nation that can serve as a role model for all developing nations. An important contributor to this growth process is the culture of innovation that prevails in South Korea, an atmosphere that is friendly for investors and extremely cordial with most of the countries in the Asian market.²² Its export-oriented policies and investment in innovation played a crucial role in developing the economy into what it is now. Textiles and light manufacturing were the first industries targeted for economic development before shifting to heavy industries such as iron and steel and chemicals manufacturing.²³ Later on, South Korea refocused its efforts toward

²² Investopedia, www.investopedia.com/articles/investing/091115/emerging-markets-analyzing-south-koreas-gdp.asp (accessed on 07 September 2022.)

²³ AsiaFundManagers.com, www.asiafundmanagers.com/gbr/south-korean-economy/ (accessed on 07 September 2022.)

high-technology industries, such as automobile and electronics production, as well as information technology. The government's economic strategy allowed real GDP growth to average 7.3% annually between 1960 and 2019. In 2020, South Korea's GDP growth was at -1% – the worst performance since 1998, due to the coronavirus pandemic-related collapse.²⁴ Since the World Bank categorizes South Korea as a high-income country, the country also has a highly developed industrial and service sector, although only a small amount comes from the primary sector. Table 3 will show several major sectors of the economy in South Korea.

Table 3: Major sectors of the economy in South Korea

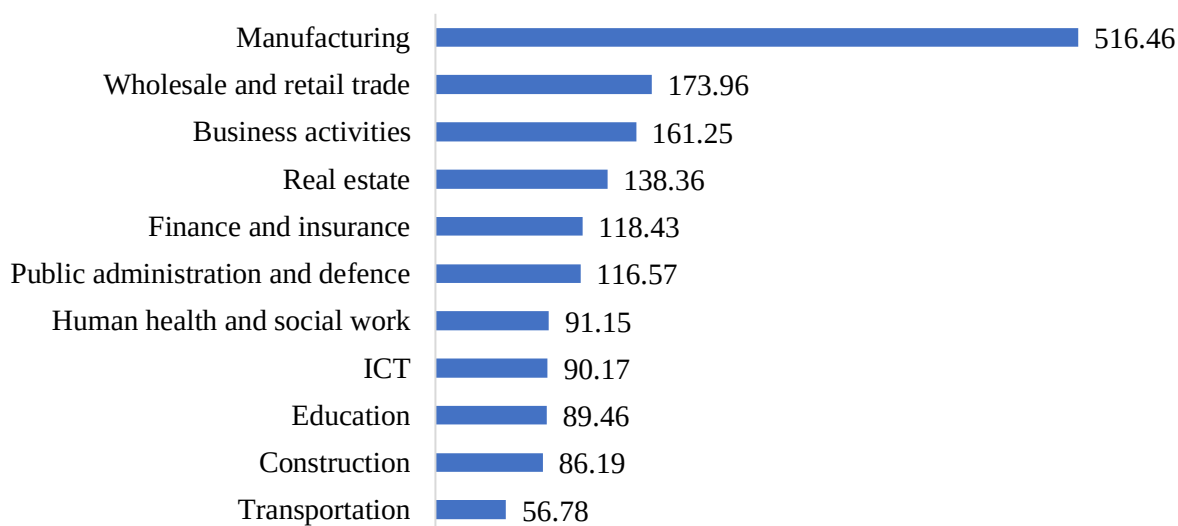
SECTORS	DESCRIPTION
Agriculture	• In the initial years after the division of the Korean peninsula, agriculture contributed almost 50% of the nation's GDP • The agriculture sector's contribution to GDP dropped to 15% by the 1980s, sliding down below 10% by the late 1980s • The country has to rely heavily on the import of agricultural products and raw materials for processing
Industry	• Within the industry, which is composed of manufacturing, mining, construction, electricity, and water and gas as its subsectors, manufacturing has been the engine of economic progress • South Korea produces steel, zinc, copper, gold, iron ore, lead, magnesite, barite, silver, and tungsten
Services	• The tertiary industry or services sector has gradually risen in terms of its contribution to the country's • The sector is yet to reach its optimal potential, as much of its growth has come by adding employees rather than through improving productivity
Real Estate Market	• Prices of real properties in South Korea have continued to increase despite new government policies aimed at stabilizing the housing market in the country • This price surge has attracted foreign investors and local multi-homeowners to buy houses as an investment
Tourism	• In 2023, the forecast from the global tourism body shows the sector's contribution to South Korea's GDP could reach nearly ₩83.4 trillion • The global tourism body predicts the sector's contribution to GDP is expected to grow 30.6%

Source: made by author, Investopedia,
www.investopedia.com/articles/investing/091115/emerging-markets-analyzing-south-koreas-gdp.asp (accessed on 07 September 2022.)

²⁴ Ibidem

In addition to the main sectors of the economy listed in Table 3, South Korea is also dominated by the textile industry, car manufacturing, shipbuilding, electronics, steel and semiconductor manufacturing, and other activities. Regarding the realized gains of South Korea's GDP by sector, Graph 4 will show the statistics of realized gross domestic product in 2021.

Graph 4: Real GDP of South Korea in 2021, by sector (in trillion South Korean won)



Source: made by author, Statista, www.statista.com/statistics/1200219/south-korea-gdp-by-sector/ (accessed on 07 September 2022.)

Although the other sectors shown in Graph 4 do not represent bad results, it is evident that manufacturing is the most developed branch of industry considering that South Korea itself is known as a high-tech and industrialized economy.

Manufacturing has driven Korea's rapid economic development, transforming it into a global industrial giant. It is one of the world's largest shipbuilders, fifth largest car maker, and sixth largest steel maker.²⁵ Advanced manufacturing and services dominate the economy, employing the majority of the population. Among its main manufactures are mobile phones, consumer electronics, household whitegoods, cars, ships and steel, all of which are exported around the globe. As an advanced manufacturing economy, Korea imports large quantities of natural resources such as coal, iron ore and oil.²⁶ Other important branches of industry are chemical and petrochemical, engineering, food and textile. The main base industry is located on the southern coast, and the processing industry is located on the western coast, especially

²⁵ Asialink Business, <https://asialinkbusiness.com.au/republic-of-korea/business-practicalities-in-korea/manufacturing-in-korea?doNothing=1> (accessed on 24 September 2022.)

²⁶ Ibidem

around Seoul. The intensive development of the industry also has negative consequences, primarily severe environmental and air pollution.

2.3.2. International trade and main trading partners in South Korea

South Korea mainly imports mineral and mineral oils, electrical machinery and equipment, nuclear machinery and mechanics, road vehicles and precious metal compounds. Although China is the main and largest exporting country, other countries are not far behind, especially European countries such as Germany and Russia, while the USA is second, followed by Kuwait, Malaysia, Indonesia and others.

In July 2022 South Korea exported \$60.7B and imported \$65.6B, resulting in a negative trade balance of \$4.85B. Between July 2021 and July 2022 the exports of South Korea have increased by \$5.27B, while imports increased by \$11.9B (22.2%) from \$53.6B to \$65.6B. In July 2022, the top exports of South Korea were electrical machinery and equipment and parts and the top imports were mineral fuels, mineral oils and products.²⁷ It should also be noted that over the past 20 years, the South Korean economy has become relatively more complex, moving to 5th place in the ECI ranking.

The International Monetary Fund (IMF) is forecasting a rebound of 9,2% in the volume of exports of goods and services of this country in 2022, after an increase of 10.5% in 2021 and 0,9% in 2020 due to the COVID pandemic, and an increase of 2.2% of its imports, after a fall of 0.8% in 2020 and 0% in 2021.²⁸ South Korea is heavily integrated into international trade and finance and is subsequently highly vulnerable to external influences, especially from China, which is its main trade partner, followed by United States, Vietnam, Hong Kong and Japan²⁹ Exports and imports alone for South Korea improve economic cooperation, and create new rules for electronic commerce, intellectual property, market competition, and small and medium-sized enterprises. Table 4 will show the import and export statistics of South Korea in the past few years.

²⁷ OEC, <https://oec.world/en/profile/country/kor> (accessed on 12 September 2022)

²⁸ Banco Santander, <https://santandertrade.com/en/portal/analyse-markets/south-korea/foreign-trade-in-figures> (accessed on 12 September 2022)

²⁹ Ibidem

Table 4: Foreign Trade Indicators in South Korea

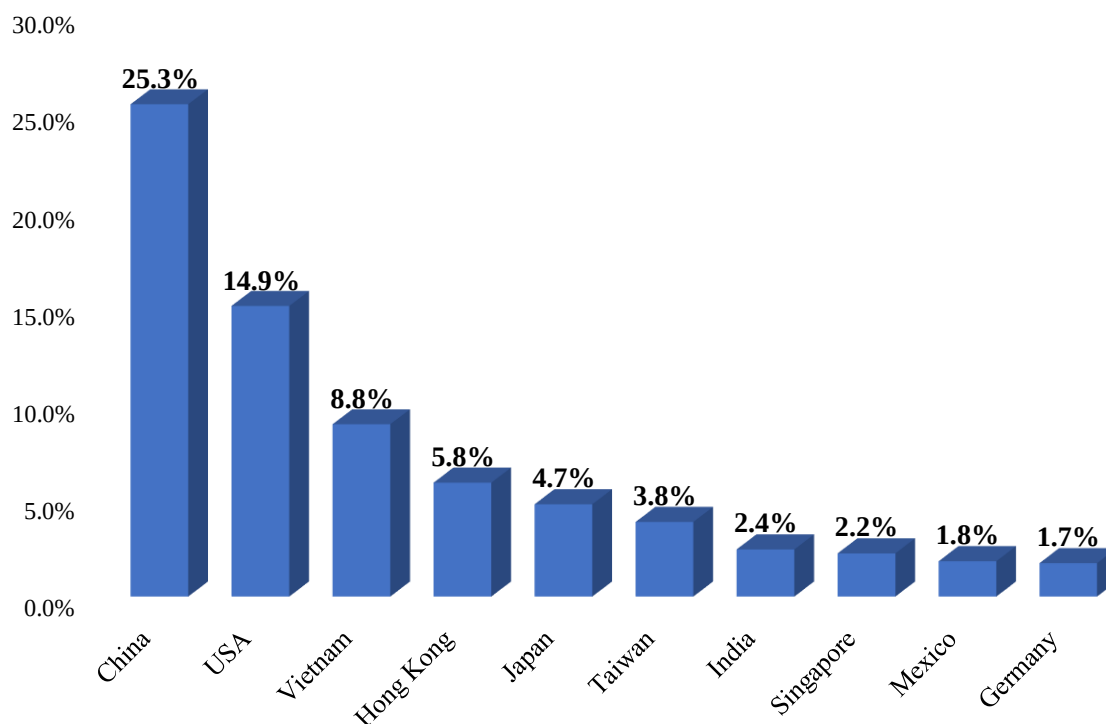
INDICATORS	2016.	2017.	2018.	2019.	2020.
Foreign Trade (in % of GDP)	73.6	77.1	79.0	77.0	70.1
Trade Balance (million USD)	116,462	113,593	110,087	79,812	81,945
Trade Balance (Including Service) (million USD)	99,123	76,859	80,717	52,967	65,755
Imports of Goods and Services (Annual % Change)	5.2	8.9	1.7	-0,6	-3.8
Exports of Goods and Services (Annual % Change)	2.4	2.5	4.0	1.7	-2.5
Imports of Goods and Services (in % of GDP)	33.5	36.2	37.3	37,0	33.2
Exports of Goods and Services (in % of GDP)	40.1	40.9	41.7	39.9	36.9

Source: The World Bank Group, <https://data.worldbank.org/country/korea-rep> (accessed on 12 September 2022)

The 5 biggest customers for South Korean exported goods are mainland China, United States of America, Vietnam, Hong Kong and Japan. Combined, that leading quintet of importers accounted for about three-fifths (59.5%) of South Korean exports. Applying a continental lens, approaching two-thirds (63.1%) of South Korea's exports by value in 2021 were delivered to fellow Asian countries while 17.8% were sold to North American importers. South Korea shipped another 12.8% worth of goods to Europe.³⁰

³⁰ World's Top Exports, www.worldstopexports.com/south-koreas-top-import-partners/ (accessed on 12 September 2022)

Graph 5: South Korea's Top Trading Partners in 2021 (% of total South Korean exports)



Source: made by author, World's Top Exports, www.worldstopexports.com/south-koreas-top-import-partners/ (accessed on 12 September 2022)

Graph 5 shows the percentage of each country's imports in total Korean exports. It is important to note that the fastest growing main importers were Belgium, Australia, France, Taiwan and Mexico.

It can be concluded that in 2021, China exported trade goods worth about 162.91 billion US dollars, thus reaching the first place with 25.3% of total imports, while the main products exported by South Korea were integrated circuits, machinery which have individual functions and refined oil. In recent years, South Korea's exports have grown at an annual rate of over 115%, which is not only the case for China, but also for other countries in Asia and Europe. This growth is also expected in the future because the export-oriented policy of South Korea is one of the most important factors of its economic success, since South Korea itself is one of the world's 10 largest exporters of goods, which accounts for more than half of its GDP.

2.3.3. Labor force and unemployment in South Korea

South Korea has relatively low unemployment, which suggests that the labor market is holding up in the face of accelerating inflation and rising interest rates, giving room for further policy

tightening. What also characterizes the South Korean labor market is dualism, that is, the segmentation between regular and irregular workers, which remains deeply rooted in the Korean labor market.

For the former communist states, there is, of course, little doubt that the transition to a market economy requires comprehensive institutional reconstruction and privatization. It is also clear that the institutional mechanisms surrounding the highly protectionist economies of Latin America stifle development. Japan and South Korea have managed to achieve full employment with a notable degree of equality in the context of highly regulated labor markets.³¹ Following the example of Japan, the whole of East Asia, and especially South Korea, sees its future in an educated workforce, just as Sweden did as a welfare state. This obviously includes large social investments in education, health and social services. A strong income support system is likely to be difficult to avoid under such a scenario, given that a more educated, urban and professional workforce tends to distance itself from the principle of family solidarity that underpins Confucian culture, while social security schemes for company workers are very uneven in scope.³² Women in Japan and South Korea, like those in Germany and Italy, are having far fewer children (the fertility rate in Japan is now well below reproductive) and are increasingly entering the labor market.³³ The polarization of the labor market in South Korea is highlighted by elements related to politics, which means that the Korean government experienced significant political failures, which neutralized all possible positive effects and new redistributions in the labor market.

As industrialization and income levels advanced from the late 1980s, a shortage of low-skilled workers developed. From the early 1990s, there was an influx of foreign workers, due mainly to the industrial trainee system. However, poor management of the system led to problems such as corrupt brokers and workers fleeing their workplaces. Later, with improvements such as the introduction of a foreign employment permit system in 2003, regulations on the employment of foreign workers were eased and employment protections for foreign workers were strengthened.³⁴ Under the current employment permit system, foreigners with long-term visas who are eligible to work in Korea can be classified into two main

³¹ Esping-Andersen, G.: *After the Golden Age: The Future of the Welfare State in the New Global Order*, Revija za socijalnu politiku, Vol. 3 No. 1, 1996., pp. 62.

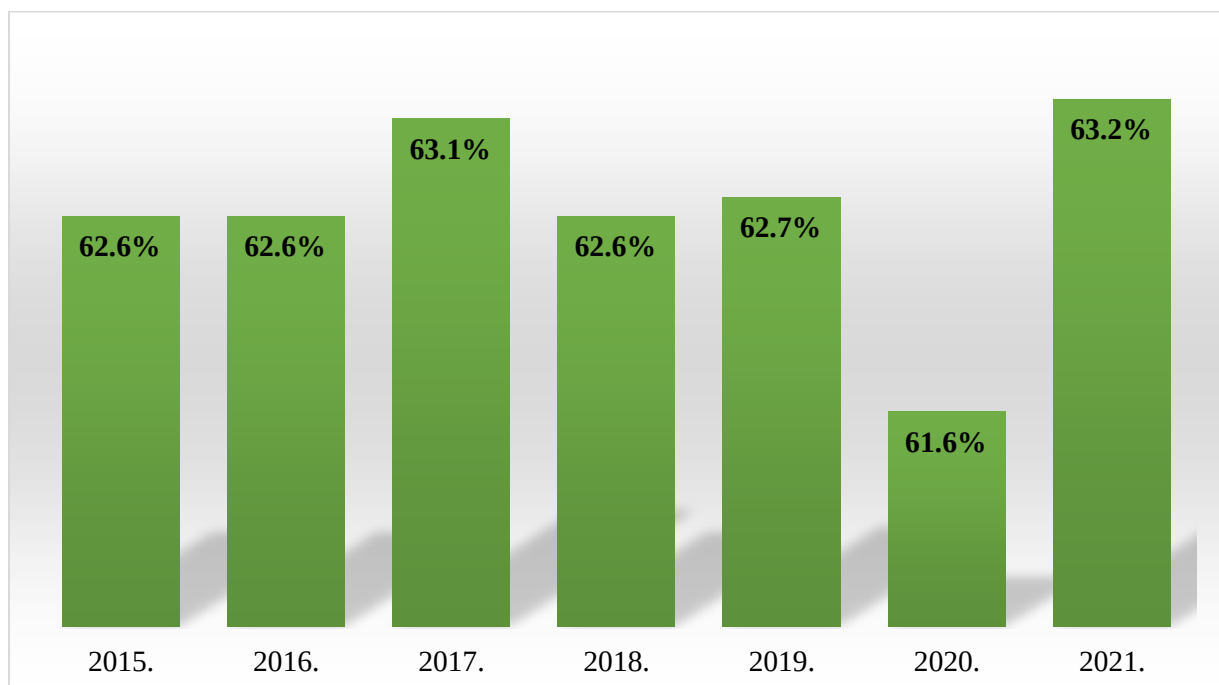
³² Ibid., pp. 65.

³³ Ibid., pp. 76.

³⁴ Jeon, S. C.: *Foreign workers in the Korean labour market: current status and policy issues*, BIS Paper, No. 100, 2018., pp. 210.

categories: nonprofessional and professional. Non-professional workers hold mostly nonprofessional employment, working visit or compatriot visas. Foreign workers with working visit and compatriot visas can search for jobs autonomously after arriving in Korea, and they can be employed in a wider range of industries than can those with non-professional employment visas. The number of professional workers is not large, and language instructors are a profession that has the most professional workers.³⁵ In South Korea, permanent workers receive higher wages and social security and a high degree of job security, while non-permanent workers receive lower wages and work in uncertain jobs. On the other hand, temporary workers and part-time workers also represent a significant share of the overall Korean labor market.

Graph 6: Labor force participation rate in Seoul, South Korea from 2015 to 2021.



Source: made by author, Statista, www.statista.com/statistics/1065293/south-korea-seoul-labor-force-participation-rate/ (accessed on 12 September 2022)

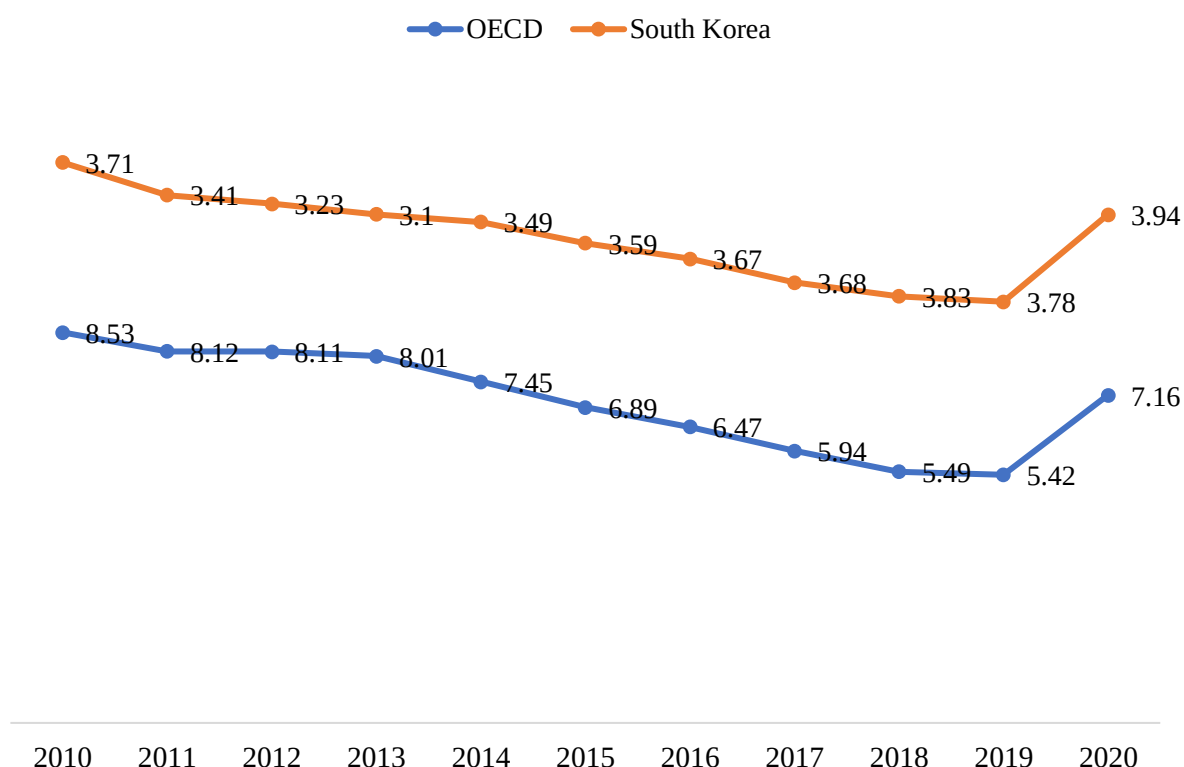
It can be concluded from Graph 6, labor force participation rate in 2021 was 63,2%. The trend of part-time jobs among older Koreans is responsible for the fact that the country's economy recorded a record low unemployment rate. The following tabular presentation will give an insight into the statistics of the working population of South Korea.

Korea's employment rate matches the OECD average as a high rate for prime-age men is offset by low rates for women and youth. Women face a number of obstacles to employment,

³⁵ Ibid.

such as a lack of work-life balance and labor market dualism, which confines many women to low-paid non-regular jobs.³⁶ The employment rate for youth (15-29) is well below the OECD average. While Korea has the highest graduation rate from tertiary education, many cannot find suitable jobs. Meanwhile, around 80% of SMEs complain of labor shortages.³⁷ Graph 7 will show South Korea's unemployment rate compared to OECD countries for the last 10 years.

Graph 7: South Korea's unemployment rate compared to OECD countries, total % of labor force, 2010 – 2020



Source: made by author, Organization for Economic Co-operation and Development <https://data.oecd.org/unemp/unemployment-rate.htm>, (25 September 2022.)

According to Graph 7 it can be seen that the unemployment rate in OECD countries ranged from 8.53% to 5.42% from 2010 to 2019, while in 2020 it rose sharply to 7.16%. The reason for this is the emergence of the COVID-19 pandemic, which caused many to close their businesses. The unemployment rate in South Korea has been fluctuating since it rose again in 2014, reaching a peak of 3.94% in 2020, and it is still much lower rate than in most countries.

³⁶ The new OECD Jobs Strategy: Good jobs for all in a changing world of work, 2018., pp. 1., available at www.oecd.org/publications/good-jobs-for-all-in-a-changing-world-of-work-9789264308817-en.htm (25 September 2022.)

³⁷ Ibid., str. 2.

Table 5: Economically active population in South Korea, 2022.

CATEGORY	STATISTICS
Economically active population and labor force participation rate	• Economically active population marked 28.627 million persons, which grew 489 thousand persons or 1.7% year-on-year • The labor force participation rate stood at 63.3%, up 0.8%
Employed persons and employment to population ratio	• Employed persons totaled 27.754 million persons, which went up 831 thousand persons or 3.1% • Employment to population ratio recorded 61.4%, up 1.6%
Unemployed persons and unemployment rate	• Number of unemployed persons totaled 873 thousand people, which decreased 342 thousand persons or 28.2% • Unemployment rate marked 3.0%, down 1.3%
Economically inactive population	• economically inactive population totaled 16.592 million people, decreasing 277 thousand persons or 1.6%

Source: made by author, Statistics Korea,
<http://kostat.go.kr/portal/eng/pressReleases/5/2/index.board?bmode=read&aSeq=417761>
(accessed on 12 September 2022)

It is interesting that half of the newly created jobs were filled by people over 60 years old. As recently as last year, the unemployment rate was at a 20-year high, as the spread of the coronavirus hit the South Korean labor market hard. Although the shift towards casual, part-time and thus low-paid jobs is a global phenomenon, this trend is particularly pronounced in South Korea.

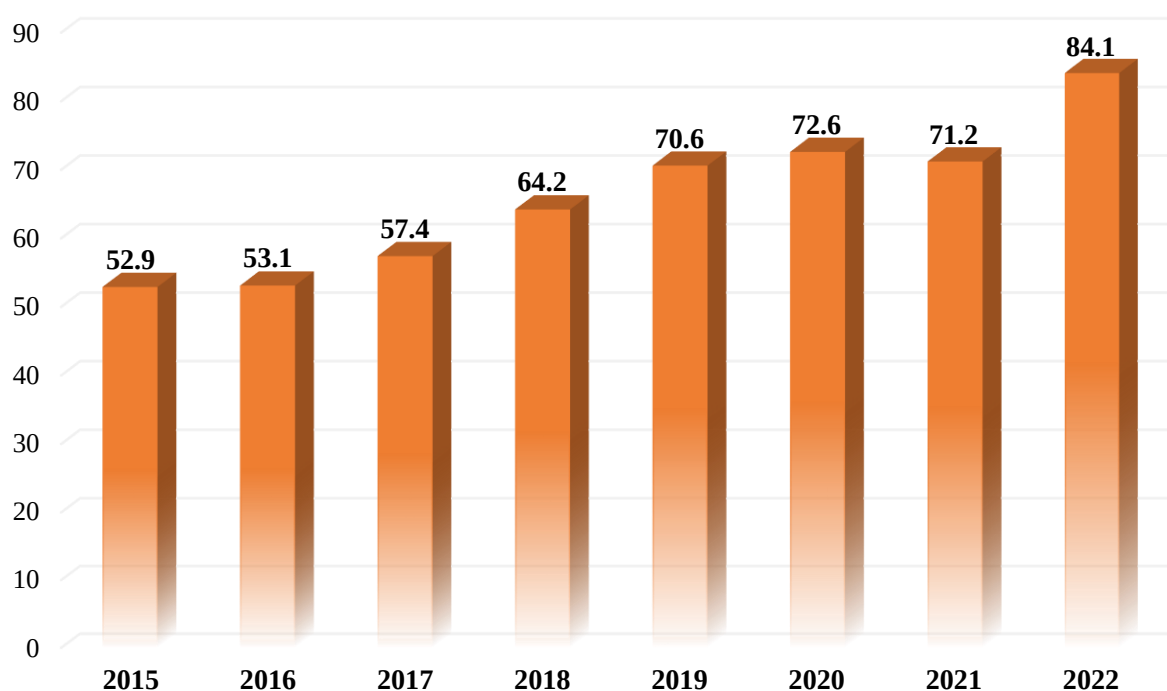
2.4. Education in South Korea

The education system in South Korea has changed significantly since the end of the Korean War and has become the backbone of the South Korean economy. The consequences of the above are visible in large state investments and investment in the workforce and human potential to further expand educational opportunities, but also in the creation of excellent engagement of teachers and strong commitment of parents to education as a shortcut to improving social status.

Inclusion International, a non-governmental organization, stated that human rights would be fulfilled once everyone is given the right to participate fully in society without exclusion. Inclusive education, which current special education is oriented towards, is a part of

the efforts to guarantee the right to learn without discrimination for students with disabilities.³⁸ However, there exist both pros and cons in the delivery of inclusive education in special education settings in South Korea. In reality, among teachers in the education field, while many advocates the importance and pertinence of inclusive education many others criticize how it has been realized. One of the reasons for this may be that inclusion practices have been directly adapted from Western countries without fully regarding the Korean educational culture and environment.³⁹ Graph 6 shows how much is allocated to the education sector in South Korea in the last seven years.

Graph 8: South Korean local governments' budget for educational sectors from 2015 to 2022 (in trillion South Korean won)



Source: made by author, www.statista.com/statistics/713987/south-korea-local-governments-budget-for-education/ (accessed on 13 September 2022)

The advantages of the South Korean education system are the availability of school fees and textbooks, flexible teaching, group work is highly valued, and the education system in the country has been continuously developed, and in general, education in South Korea has helped to spread feelings of patriotism and national pride.

³⁸ Kim, Y. W.: *Inclusive education in South Korea*, International journal of inclusive education, Vol. 18, No. 10, 2014., pp. 979.

³⁹ Ibid.

3. DEFINITION AND HISTORY OF CHAEBOL

South Korean chaebols are conglomerates owned by wealthy families, which usually have subsidiaries in various industries. Chaebols dominate the economy of South Korea and have great political and economic influence. In the past, they played a key role in transforming a once poor, agricultural country into one of the largest economies in the world.

Chaebol refer to gigantic business conglomerates in South Korea. With the government-led development approach, the Seoul government gave a preferential treatment to export-oriented corporations with respect to credit allocation. As a result, some family owned companies grew to become huge business corporations dealing with various industries. The close working relationship between the government and the business community played a significant role in developing the Korean economy.⁴⁰

Stepping back into the Korean chaebol's history timeline, in 1961, the power shifted from the President Yun Bo-seon to the President Park Chung-hee. The latter decided to shift the strategy from Import Substitution to Export Promotion, even if ISI was not completely abandoned. His first directive was to nationalize all the banks and also to support chaebols through loans and export subsidies.⁴¹ Thanks to these changes the chaebols began to gain market share and, for this reason, they were chosen as the main instrument for the economic development. Consequently, chaebols began to grow and to become important and relevant inside and outside the country. In addition, the share of GDP of manufacturing rose from 9% to 27%, while the share of agriculture fell from 45% to 25%.⁴² At the beginning of 1990 there was more concern about globalization, so the new government tried to support it with new reforms. These reforms had the main purpose of deregulation and liberalization. This helped chaebols to have access to U.S. dollar credit from international lenders, that were more attractive compared to the domestic banks, since they offered lower rates.⁴³

In the 1998, thanks to the help of the IMF, the situation started to get better, or at least it seemed to be better at the beginning. The Korean business environment became more globalized through the opening of the Korean Stock Exchange (KSE) to investors from all over

⁴⁰ Yeon-Ho, L.: *The State, Society, and Big Business in South Korea*, London: Routledge Advances in Asia-Pacific Business, 1997., pp. 18.

⁴¹ Ferris, S. P., Kim, K. A. & Kitsabunnarat, P.: *The costs (and benefits?) of diversified business groups: The case of Korean chaebols*, Journal of Banking & Finance, Vol. 27., No. 2, 2003., pp. 251.

⁴² Ibid.

⁴³ Ibid.

the world. It brought to an increase in the direct financing in Korean companies through the stock market.⁴⁴ It had consequences for chaebols, mostly because it was required for them a more transparent accounting system, that has never been so transparent, and it has always been characterized by a high level of corruption. Consequently, the government wanted chaebols to apply more transparency to their operations and financial statements in order to have a higher transparency of the investments and transactions with the affiliated companies.⁴⁵ South Korean governments generously supported the establishment and development of chaebols in the 1960s. Today's giants such as Samsung and Hyundai were created back then. Chaebols have a structure in which key managerial positions are held by members of the founder's family, which gives them the possibility of firm control.

3.1. The rise of Chaebol and the dominance of the industrial sector

Industrial Policy and the Chaebol South Korea followed Japan with respect to industrial policy, viewing imitation as key to competing with the former colonial master with whom it may have caught up with in real per capita income. In both countries, the pattern of exports and imports evolved as each country climbed a developmental ladder from exporting primary commodities and low-skill, labor-intensive products to higher-skill, high-technology ones. In both countries infant industry protectionism was used, often backed by state-directed investment, until the next targeted industry achieved a certain level of development and exports.⁴⁶ The drivers of the expansion of industrial exports were chaebols.

For an extended period of time all the banks in South Korea were state-owned, making the chaebol dependent on state credit institutions. Privatizing the banks has been a major aspect of reform efforts in South Korea.⁴⁷ In 1997 these five were the largest chaebols in South Korea by sales; their rank order was Hyundai, Daewoo, Samsung, Lucky-Goldstar, and Sunkyong. By 2001 this had changed, with Daewoo's bankruptcy and the partial breakup of Hyundai, and the top five in order were: Samsung, Hyundai "MH" Group, Lucky-Goldstar, Sunkyong, and Hyundai Motor. The share of all exports from the nine largest chaebol trading companies rose from 13 percent in 1975 to 54.2 percent in 1984.⁴⁸

⁴⁴ Park, J. H., Sung, Y. D. & Jung, M. G: *The Role of Chaebol on CEO Turnover in Korean Corporate Governance*, Journal of Strategic Management, Vol. 13., No. 3. pp. 89.

⁴⁵ Ibid.

⁴⁶ Rosser, M. V. & Barkley Rosser J. Jr.: *op. cit.*, pp. 474.

⁴⁷ Ibid., pp. 475.

⁴⁸ Ibid.

Pressure on chaebols, especially on Hyundai, back then the largest chaebol, intensified under the post-military democratic governments because of links between them and the previous military regimes. Despite these efforts, domination of South Korea's economy by chaebols has revived in the new century. The most likely mechanism for ending chaebol domination would be their failure to grow while new firms in other countries grow faster, as seen in the United States and in tiger neighbors such as Taiwan.⁴⁹

Hence, we need to approach the formation and growth of Korea's Chaebols from a vantage point extending beyond the 1950s. The four crucial factors of chaebol growth were:⁵⁰

- taking over Japanese owned plants;
- processing the “three whites” (cotton, flour, and cement) in the 1950s;
- riding on the Vietnam War-generated boom;
- following Park's industrialization plan.

In all four ways, state support was crucial. It was in the 1970s, when the most dramatic growth occurred. Consider in this regard that by 1973 less than 10% of the total industrial capital stock was from before the Korean War.⁵¹ Different chaebols were the biggest in 1966 compared to those in 1985. In 1966, the largest corporations were Samsung, Samsang, Samyang, Kaetong, Tong'a, Lucky, and Taehan; by 1985 they were Samsung (established in 1952), Hyundai (1947), Lucky Goldstar (1947), Daewoo (1967), Sunkyung (1953), and Ssangyong (1948). Samsang, Samyang, Kaetong, Tong'a, and Taehan declined or had disappeared by the 1980s. By the mid-1980s, only two major corporations (Ssangyong and Daelim) could trace their lineage to the colonial period. Furthermore, only two of the ten largest corporations in the mid-1980s were targets of the 1961 Illicit Accumulation Law. State led development and chaebol growth couldn't be separated back then.

As these examples suggest, state patronage propelled corporate growth. In summary, state patronage and social networks shaped chaebols growth. It would be misleading to highlight the individual initiative of the founder-entrepreneurs of major South Korean chaebols in explaining conglomerate growth. They were undoubtedly bright and diligent, but their entrance to the ranks of the chaebol during the 1960s and 1970s depended on their ability to

⁴⁹ Ibid., pp. 476.

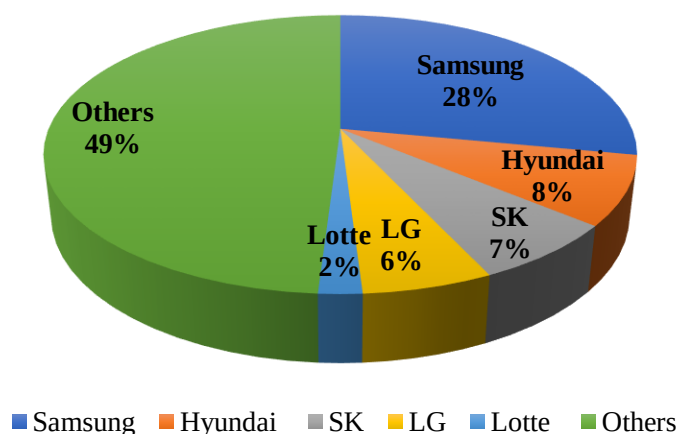
⁵⁰ Choi, J.-P., & Cowling, T. G.: *Firm behavior and group affiliation: The strategic role of corporate grouping for Korean firms*, Journal of Asian Economics, Vol. 10, No. 2, 1999., pp. 198.

⁵¹ Hong, W.: *Factor Supply and Factor Intensity of Trade in Korea*, Seoul: Korea Development Institute, 1976., pp. 22

cultivate political favors. More importantly for our purposes, many observers depict chaebol as bastions of entrepreneurship.⁵² For decades, these conglomerates have received a lot of help from the state in the form of credits, loans, tax breaks and subsidies, due to which they have become the pillars of the domestic economy.

Today, there are five main chaebols that are the largest, the more diversified and the most powerful above all: Hyundai, LG, SK, Lotte and, largest of them all, Samsung. These five companies grew a lot during the second half of the 1900, stabilizing their market position worldwide, but in particular they have become the engine of the Korean economy, accounting for the greatest part of the nowadays Korean GDP. These firms are known in the United States chiefly for electronics, home appliances or cars, but they provide a broad spectrum of services at home.⁵³

Graph 9: Five biggest Chaebol = Half of Korean stock index



Source: made by author, Bloomberg, <https://tinyurl.com/y8bwpl8m> (accessed on 09 September 2022)

There are now 45 conglomerates that fit the traditional definition of a chaebol, according to Korea's Fair-Trade Commission. The top 10 own more than 27% of all business assets in South Korea.⁵⁴ While the chaebol helped make South Korea an economic success story, many politicians and investors argue that the system is a cultural relic poorly suited to the 21st-century economy. The shares of chaebol-linked companies trade at lower multiples of earnings than

⁵² Koo, S. M.: *Korea's Big Business Groups and International Competitiveness*, The Korean Economy at a Crossroad: Development Prospects, Liberalization, and South–North Economic Integration. CT: Praeger, 1994., pp. 157.

⁵³ Jun, I., Sheldon, P. & Rhee, J.: *Business groups and regulatory institutions: Korea's chaebols, cross-company shareholding and the East Asian crisis*, Asian Business & Management, Vol. 9, No. 4., 2010., str. pp. 499.

⁵⁴ Bloomberg, <https://tinyurl.com/y8bwpl8m> (accessed on 09 September 2022)

their peers in the U.S., Europe or Japan (a phenomenon called the Korea discount) because of concern over cronyism and cross-ownership.⁵⁵ Although in South Korea there are about forty conglomerates that fall under the definition of chaebol, only a few of them possess enormous economic power. The five largest chaebols account for half of South Korea's stock market. A large number of workers are employed in these mega companies. Chaebols dominate the South Korean economy, although this sometimes reflects poorly on SMEs and startups to be competitive. Smaller business owners face such powerful companies and most of the time they cannot compete with their very limited resources.

3.2. The influence of chaebol on the economy of South Korea

Over time, chaebols have expanded into many industry sectors and penetrated rich foreign markets. Exports increased, and millions of people escaped poverty thanks to the chaebols. In recent years, some chaebols have been mentioned in the context of disrespecting workers' rights, corruption and tax evasion, and there are many chaebol conspiracy theories. What is certain is that the chaebols played the most important role in the metamorphosis of an underdeveloped agricultural country into an industrial giant.

Eventually, even chaebols had to accept some changes and reforms. The changes required in the managerial style of chaebols were mainly this five:⁵⁶

- enhancement of management transparency
- capital structure improvement
- greater accountability by owner managers
- cancelation of mutual loan guarantees among chaebol affiliates
- business consolidation into core competence areas

In the 1999, the government added three more rules that the Chaebols had to respect:⁵⁷

- prevent industrial capital from dominating finance
- discourage circular investment between chaebol affiliates
- prohibit nepotistic transfer of management or ownership to family heirs

⁵⁵ Ibidem

⁵⁶ Hijzen, A. & Thewissen, S.: *The 2018-2021 working time reform in Korea: A preliminary assessment*, OECD Social, Employment and Migration Working Papers, No. 248., 2020., pp. 8.

⁵⁷ Yanagimachi, I.: *Chaebol Reform and Corporate Governance in Korea*, Keio: University of Japan, 2004., pp. 3.

Chaebols were also forced to change because of the public opinion. People have always seen them as the main reason for the crisis because of their incautious lending and expansion. According to the IMF the main reason for the crisis had been the low profitability, a result of over-capacity and over-investment in industries such as shipbuilding, automobiles, electronics and semiconductors. The proposed solution for this problem was the elimination of surplus production capacity, so eliminating some plants and equipment, and the injection of public funds to recapitalize chaebols in return for an end to the practice of mutual debt guarantees between chaebols' affiliates.⁵⁸ One of the main objectives of the government was the reduction of the debt ratio. The problem was that the government wanted to reach this goal with all the means it had, in order to lower it under the 200% in the shortest time possible. This brought the government to use false tactic such as the circulatory investments. Circulatory investments happen when company A invests into B, B into C, C into B and B into A. In this way, no actual investment has been made, but capital appears to be increased in the book. This could give more power and control to the owner of the chaebol and again minority shareholders would be ignored.⁵⁹

Because of the failure in restructuring chaebols, the government had to think something else to make the economy survive. That is why the government issued 64 trillion worth government bonds to be used for resolving bad debts and restructuring financial institutions. Eventually the economy remained unstable because of the lack of investments companies, merchant banks or security dealers in the country. The situation got worst with the fall of Daewoo group. The problem was that all the financial institutions were linked in some way to this chaebol. The fall of Daewoo Group has produced debts estimated to be equal to 90 trillion won. As a result, a lot of financial institutions came back to the situation of insolvency experienced with the IMF Crisis. It happened because of a mistake of not closing immediately the Daewoo Group after the IMF Crisis, delaying the incumbent disaster.⁶⁰ In order to present the current state of chaebols and analyze their impacts on the South Korean economy, a SWOT analysis of South Korean Chaebols will be presented in Table 6.

⁵⁸ Richter, F. J.: *The East Asian development model: economic growth, institutional failure and the aftermath of the crisis*, Palgrave Macmillan, 2000., pp. 328.

⁵⁹ Ibid., pp. 329.

⁶⁰ Ibid., pp. 384.

Table 6: SWOT analysis of Chaebol

STRENGTHS	WEAKNESSES
Strong brand name reputation Large size and the scope economies deriving Leader understands a business aspect Incredible level of entrepreneurship Characterized by the agility of decision making	Lack of business transparency Unprofitable businesses Investment diversifications that are not in line with financial rationality „Imperialistic management“
OPPORTUNITIES	THREATS
Opening up of new markets because of government agreement Lower inflation rate Decreasing cost of transportation Government support of green economy	The company can face lawsuits in various markets due different laws Changing consumer buying behavior Imitation of the counterfeit and low quality product Rising pay level No regular supply of innovative products New technologies developed by the competitor

Source: creation of the author

In order to present the current state of the Chaebol as well as possible, strengths, weaknesses, opportunities and threats will be presented through the well-known SWOT analysis. The goal is to show how SWOT analysis can be used to achieve a more attractive, useful and accurate way of researching the economic, social and economic impact of chaebol. While strengths and weaknesses are internal factors of a tourist destination, opportunities and threats refer to the external environment.

As mentioned in the weaknesses, sometimes it could happen that all the decisions are taken by the leaders. It is a weakness when the other employees are not involved in the decision-making processes, but it could be seen as a strength if a leader understands a business aspect of a lot of their subsidies. A great number of leaders, means a great number of responses from people with a great knowledge and capacity. This positive aspect is strictly linked with another strength that is the improvements in capturing new business opportunities with a lot of knowledge in different fields of business.

Critical writings on chaebol focus on the pervasive personalist ties that constituted the political–business nexus.⁶¹ Former military and government officials often joined chaebol management and forged ties between corporations and the state. Coverage of several chaebol scandals added further fuel to critical public sentiment of direct support to the chaebol. The narrative in Korean media has been of the corrupt practices of chaebol leadership, of a lack of accountability for crimes committed (in light of shortened sentences or non-guilty verdicts) and of an irreconcilable distance between chaebols’ dynastic families and the Korean population.

Despite the scandals, chaebol have continued to stack their corporate boards with allies and place new generations of family in executive roles. While the boards generally adhere to international standards of transparency, analysts say that in practice chaebol families continue to dominate from the sidelines and have fostered a cult of personality that prioritizes loyalty over skill. Practices such as cross-shareholding, in which families exert control over chaebol through a web of circular investments in various affiliates, still exist.

Many experts blamed the chaebols for causing the Asian Financial Crisis through their short-term foreign borrowing excesses.⁶² It did not end there. Many chaebols then turned to the Korean government for bailouts, but even then, eleven chaebols went bankrupt, including Kia, and 10 other chaebols in the top 50 teetered. Two years later, the Daewoo group, one of the four largest chaebols, was allowed to go bankrupt under \$50 billion (U.S.) of debt and was sold off.⁶³ The failure of chaebol firms such as Hanbo Steel and Kia Motors escalated the crisis. Fingers point at the Kim Young-sam government for its lack of consistency and speed, which caused a decline in the rollover ratio of short-term foreign capital.⁶⁴ In effect, the chaebols’ role in bringing on the crisis did not only reflect poorly on the business leaders, it also indicated that Korean politicians and policymakers were not managing the issue properly.

Although the chaebol’s are responsible for the majority of the country’s investment in research and development, experts say they may also create challenges to the health of the Korean economy. Economists have warned that the chaebols often use their

⁶¹ Janelli, R. L. & Dawnhee, Y.: *Making Capitalism: The Social and Cultural Construction of a South Korean Conglomerate*. Stanford: Stanford University Press, 1995., pp. 82.

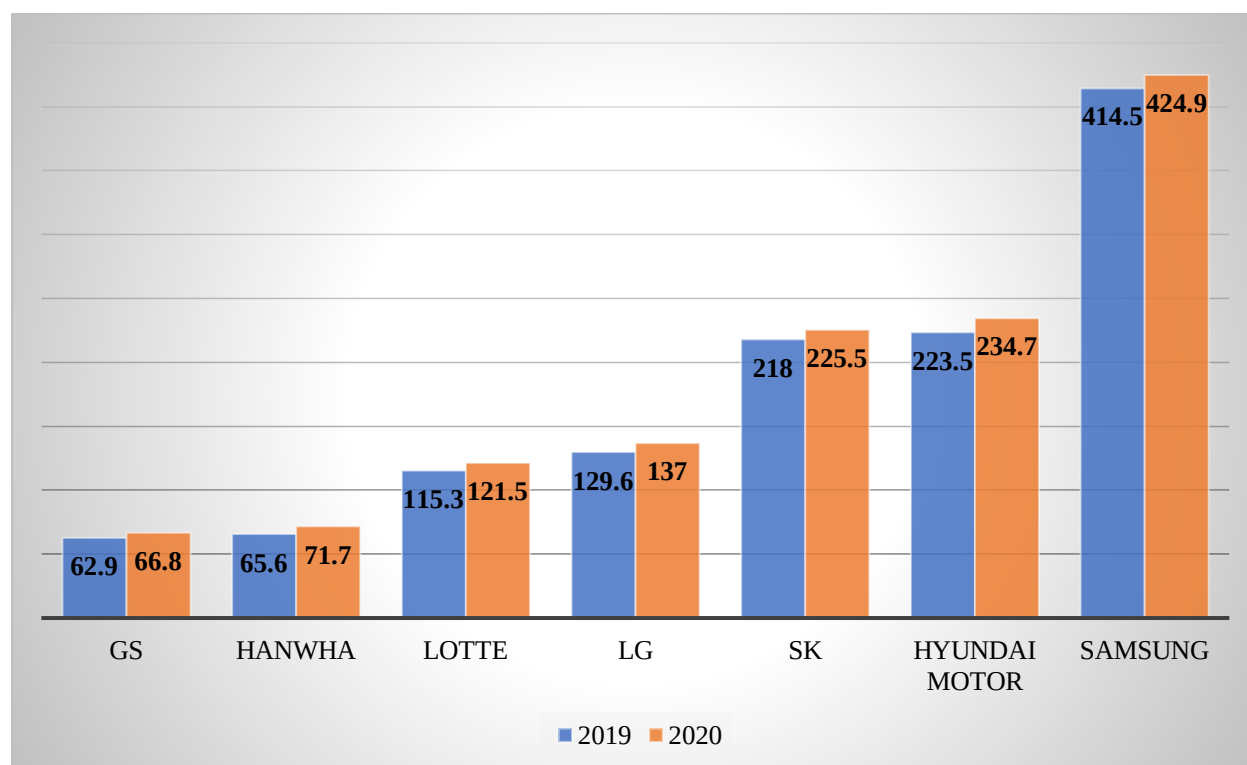
⁶² Pempel, T. J., & Tsunekawa, K.: *Two crises, different outcomes: East Asia and global finance*, Cornell University Press, 2015., pp. 90.

⁶³ Marlow, I.: *South Korea’s Chaebol Problem*, The Globe and Mail, Vol. 24. 2015., pp. 41.

⁶⁴ Pempel, T. J., & Tsunekawa, K.: *op. cit.*, pp. 90.

monopolistic clout to squeeze small and medium enterprises (SMEs) out of the market, often copying their innovations rather than developing their own or buying out the SMEs. In this predatory environment, SMEs, which provide for most of the country's employment, are unable to grow. Some economists think that chaebols destroy start-ups either by acquiring them for an artificially cheap price or using their market power to bury their fledgling business. Critics say the dominance of chaebols, where key decisions often rest on a handful of large shareholders; hampers fair business practices, stifles the competition crucial to economic growth and can facilitate the transfer of company power and wealth within families despite opposition from some shareholders, as seen in the Graph 10.

Graph 10: South Korea's top chaebols by total assets (2021.)



Source: made by author, Total assets of Korean chaebols, Fair Trade Commission, <https://www.ftc.go.kr/eng/index.do> (accessed on 12 September 2022)

In order to understand the economy of South Korea, it is essential to understand how the chaebols function because they are an integral part of the South Korean economy. Typically, a chaebol consists of dozens of subsidiaries overseen by a CEO through a network of shared co-ownership. In the employer-client relationship, a large number of outsourced companies also depend on the chaebol. In general, it can be concluded that with the growth and influence of the chaebol, the number of employees, exports and credit rating of the country also increases.

4. CASE STUDY OF CHAEBOLS

After the presented theoretical facts from the used scientific and professional literature and the description of the views and thoughts on the stated findings, it is necessary to analyze in more detail the importance of chaebol for the economy of South Korea and its economic development, i.e. how well-known consortia influence the economic situation of South Korea. The key goal is to provide a critical analysis of well-known conglomerates whose influence is also related to the theoretical considerations in the previous chapters, therefore this chapter will present a case study of two multi-industry companies operating under one corporate group – Samsung and Hyundai.

4.1. Samsung

Samsung is a South Korean company originally founded as a grocery trading store by Lee Byung-Chull in March 1938. The company forayed in the electronics industry in 1969 and its first electronic product was a black-and-white television. Soon, the company also started exporting its products and became a major electronic manufacturer in its home country. In 1970, the company acquired a 50% stake in Korea Semiconductor.⁶⁵ Witnessing a rapid expansion in the early 1980s, the company established separate branches for its various electronics businesses. By 1990s, the company had become one of the top five electronics makers in the world and was mainly known for its semiconductors, LCD screens and other technology products.⁶⁶ Samsung forayed into mobile phones in 2000 with the launch of a feature phone with built-in camera that could take up to 20 photos at a time. By late 2000, the company had launched several phones, but its global success story started with the launch of the Galaxy S series of smartphones that used the company's OLED screen technology and hummingbird processor. Besides smartphones, the company is also a major vendor of tablet computers, particularly Android-powered Samsung Galaxy Tab-series.⁶⁷ Today, Samsung is a leading technology giant and a global leader in technology that opens new opportunities for its users around the world with an emphasis on encouraging their better experience. Some important data about this famous multinational corporation will be presented in the Table 7.

⁶⁵ Business Standard, www.business-standard.com/about/what-is-samsung (accessed on 15 September 2022)

⁶⁶ Ibidem

⁶⁷ Ibidem

Table 7: Samsung Group Company Stats

CATEGORY	STATISTICS
Industry	Semiconductors, Electronics, Electrical Engineering, Technology Hardware & Equipment
Founded	1938
Headquarters	Suwon-Si, South Korea
Chief Executive Officer	Hyun-Suk Kim, Kinam Kim
Employees	113,485
Forbes Lists	America's Best Employers By State (2022) #13 Canada's Best Employers For Diversity (2022)
Revenue	\$244.2
Assets	\$358.9B
Profits	\$34.3B

Source: made by author, Forbes, www.forbes.com/companies/samsung-group/?sh=3f6d8812b35f (accessed on 15 September 2022)

Samsung's initial economic success after its founding in 1953 was inextricable from the founder Lee Byung-chull's close tie to Rhee. Samsung expanded rapidly by processing the “three whites.” Although sheared of its vast banking concerns in the early phase of Park's rule, Samsung managed to regain close ties to the governing elite. Its continued well-being relied on Lee's successful effort to follow the state-led trajectory of South Korean industrialization.

Founded in 1938, Samsung Group is South Korea's most profitable chaebol, but it began as a small company that exported goods, such as fruit, dried fish, and noodles, primarily to China. Today the conglomerate is run by second- and third-generation members of the Lee family, the second-wealthiest family in Asia.⁶⁸ Over the past eighty years, the company has diversified to include electronics, insurance, ships, luxury hotels, hospitals, an amusement park, and an affiliated university. Its largest and most recognized subsidiary is Samsung Electronics, which for the past decade has accounted for more than 14% of South Korea's GDP.⁶⁹

Eventually the reforms were not that successful as hoped and this failure happened for several reasons, such as the existence of the before mentioned circular shareholding, and the poor regulation enforcement. Basically, the change in the chaebols was only a surface change, but the structure remained the same since the inter-unit dependence and the control of family

⁶⁸ Council on Foreign Relations, www.cfr.org/backgrounder/south-koreas-chaebol-challenge (accessed on 15 September 2022)

⁶⁹ Ibidem

was still strong. The Samsung Group showed the highest ratio of inter-unit trading.⁷⁰ Samsung's 159 units reported 148.17 billion won in total sales, of which 61.73 billion won, or 41.7%, came from intra-group transactions. Internal trading by the Hyundai Group stood at 38.1%, followed by the LG group at 38.0% and the SK Group at 36.1%.⁷¹ The chaebols' dominance of South Korea's economy is reflected in that fact that sales revenue earned by the top 10 chaebols account for 67.8% of the country's GDP, according to research by Park, the National University professor. Their assets equal nearly 110% of GDP, with Samsung's assets alone accounting for 42%.⁷² Main competitors of Samsung are Apple Inc, Dell Technologies Inc, Hitachi Ltd and Sony Group Corp.

With the success of its electronics business, Samsung has been recognized globally as an industry leader in technology and now ranked as a top 10 global brand. Samsung follows a simple business philosophy: to devote its talent and technology to creating superior products and services that contribute to a better global society. To achieve this, Samsung sets a high value on its people and technologies.⁷³ Samsung Group consists of three related companies, Samsung Electronics, the world's largest manufacturer of electronics and electronic devices, then Samsung Heavy Industries, one of the world's largest shipyards, and Samsung Engineering & Construction, a world-renowned construction company. Future challenges and intense competition in the global market require Samsung to focus on building a more sustainable, customized, and connected future with products and initiatives that reduce environmental impact, satisfy consumer lifestyles and enhance the smart home experience.

4.2. Hyundai

Hyundai, as a well-known South Korean car manufacturer, was used as a case study example for several reasons. First, Hyundai is a „Cinderella“ case in that it has transformed from a low-cost domestic manufacturer in a developing country in the early 1970s to a major player in today's global automotive market.⁷⁴ In the early 2000s, it was ranked among the world's top 10 car manufacturers, both in terms of production volume and product quality. Second, Hyundai is an excellent example that can shed light on how Korean manufacturing companies have implemented, as it represents a typical and influential business model in

⁷⁰ Lee, P. S.: *Economic Crisis and Chaebol Reform in Korea*, Columbia: Business School, PEC Study Centre, Discussion Paper Series, 2000., Vol. 14., pp. 247.

⁷¹ Ibid.

⁷² Jun, I., Sheldon, P. & Rhee, J.: *op. cit.*, pp. 499.

⁷³ Samsung, www.samsung.com/levant/about-us/company-info/ (accessed on 15 September 2022)

⁷⁴ Lee, B. H., & Jo, H. J.: *The mutation of the Toyota production system: adapting the TPS at Hyundai Motor Company*, International Journal of Production Research, Vol. 45, No. 16., 2007., pp. 3666.

terms of corporate governance, management style, market strategy, and labor relations in Korea.⁷⁵ Also, given the fact that there is little research literature on Chaebol development in the world, the Hyundai case can contribute to broadening the understanding of the logistics, advantages and disadvantages of Chaebol expansion in non-Western developing economies.

The word *Hyundai* traces back to Hyundai Motor Company that was founded in April 1946. Hyundai means modern times in Korean, demonstrates the determination to be ahead of the curve, along with „novelty“ as opposed to „obsolete past times.“⁷⁶ The following year, Hyundai Civil Industries was begun by putting up a signboard alongside the building of Hyundai Motor Company and then the company was newly launched as Hyundai Engineering and Construction company, spearheading the country's modernization. With the restoration of the war-torn Hangang Bridge as a momentum, the builder took the lead in large-scale reconstruction projects for roads and ports, and so on.⁷⁷ Hyundai Motor has become a global vehicle brand with an indication of pure mobility, sustainability, art and sports partnership.

Hyundai Group was a small construction business when it opened in 1947 but grew immensely to have dozens of subsidiaries across the automotive, shipbuilding, financial, and electronics industries. In 2003, following the Asian financial crisis and the death of its founder, Chung Ju-yung, the chaebol broke up into five distinct firms. Among the standout offshoots are Hyundai Motor Group, the third-largest carmaker in the world, and Hyundai Heavy Industries, the world's largest shipbuilding company. Although founded in 1948 by Chung Ju Yung, Hyundai only began to distinguish itself in the 1960s as a construction company by gaining U.S. military contracts and by undertaking major state projects, including the 1970 completion of Kyo~ngbu Highway. Hyundai's growth continued through its heavy involvement in Vietnam related businesses, the Middle East construction boom, and Park's heavy industrialization plan, which included highway construction and shipbuilding. Hyundai created thirteen companies during the Third Five-Year Plan, following the contours of state economic priorities.

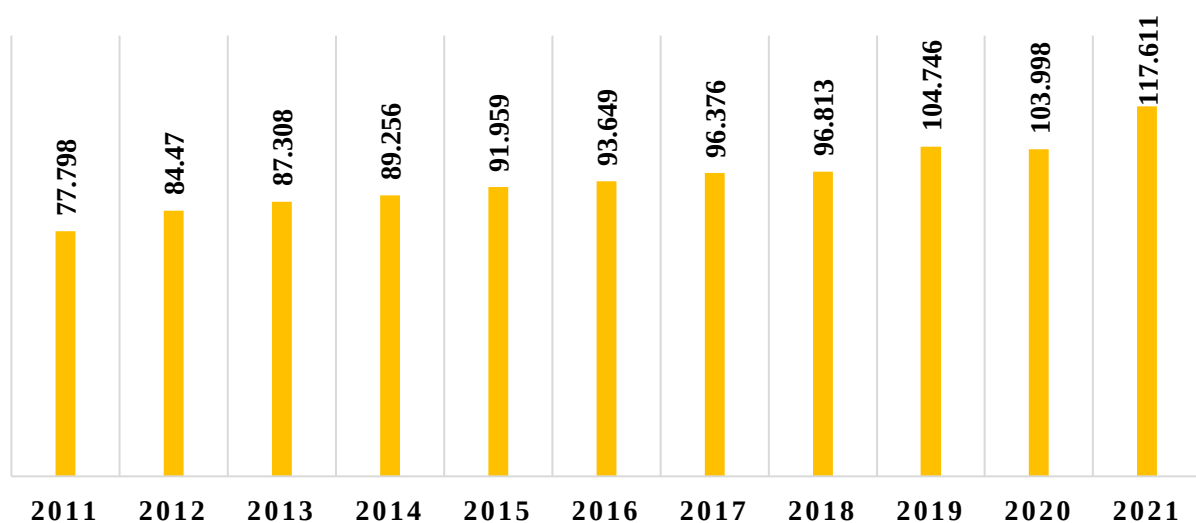
⁷⁵ Ibid.

⁷⁶ Hyundai Motor Group, www.hyundaimotorgroup.com/about-us/CONT0000000000000863 (accessed on 16 September 2022)

⁷⁷ Ibidem

As Korea's second-largest conglomerate, with 1990 revenues estimated at \$35 billion, Hyundai Group was clearly to play an important role in the new Korea. Indeed, the Hyundai founder and chairman, Chung Ju Yung, chose personally to play a new, political role in that development, founding a new political party early in 1992 with a view to promoting open-market policies.⁷⁸ Since the segment of passenger cars contributes the most to the company's revenues, Hyundai records sales growth from year to year, and the Graph 11 will show more accurate data.

Graph 11: Hyundai Motor Company's sales revenue in 2011 to 2021 (in billion South Korean won)



Source: made by author, Statista, www.statista.com/statistics/317503/sales-revenue-of-hyundai-motor-company/ (accessed on 16 September 2022)

Hyundai reported sales revenue of 117.6 trillion South Korean won (or about 99 billion U.S. dollars) in 2021. Hyundai would go on to manufacture the first South Korean car. The passenger car segment is the largest contributor to the company's revenue. In an effort to respond to shifts in consumer demand, Hyundai announced plans to invest more in sustainably-powered cars.⁷⁹

The further progress of digital technologies, especially in the areas of the automotive industry, will be a great challenge for all corporations. Cloud computing, data analysis, Internet of Things, artificial intelligence and other trends will lead to the connection of

⁷⁸ Reference For Business, Hyundai Group – Company Profile, www.referenceforbusiness.com/history2/52/Hyundai-Group.html (accessed on 16 September 2022)

⁷⁹ Statista, www.statista.com/statistics/317503/sales-revenue-of-hyundai-motor-company/ (accessed on 16 September 2022)

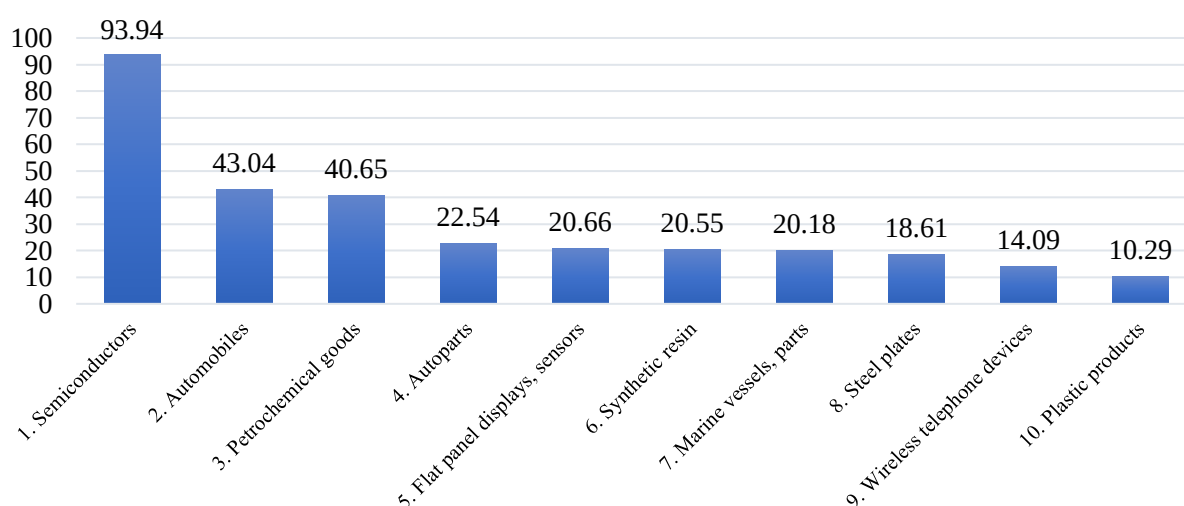
people to society in real time in all aspects of their lives, including their cars, therefore Hyundai as a well-known South Korean corporation must keep up with the times and follow the megatrends that will shape the future of the automotive industry.

4.3. Perspective and future development of the Chaebol and the economy of South Korea

South Korea is a highly developed industrial and agricultural country, whose industry has shown good growth dynamics in the last few decades. Thanks to this, South Korea's economy developed rapidly. On the example of this country, the answer to the question of whether a country with an uneducated poor population that does not have gas, oil and other minerals can become prosperous sounds affirmative. The Korean experience has a number of key features that confirm the possibility of gradually building a knowledge-based economy.

The impressive standing of the United States and South Korea in the digital economy provides opportunities for bilateral cooperation and point to areas with room for improvement as well. South Korea would benefit from improving productivity levels by implementing policies that better diffuse technology across the economy, and address digital skills gap between SMEs and large firms.⁸⁰ Graph 12 will show in more detail what South Korea exports the most.

Graph 12: South Korea's top export items (Billions of US \$)



Source: made by author, Ministry of Trade, Industry and Energy, <https://english.motie.go.kr/www/main.do> (accessed on 16 September 2022)

⁸⁰ Kim, I., et. al.: *Manufacturing Digitalization in the U.S. and Its Policy Implications for Korea*, KIET Occasional Paper. No. 108., 2018., pp. 93.

The most prominent challenges for digital economy are the fragmentation of digital rules and standards, and non-interoperability of digital systems. Policy making to address these concerns will require consistency and transparency in global rules and standards, efficiently in building out infrastructure and connectivity, emphasizing public-private partnership, and garnering international cooperation. The Korean New Deal launched by the Moon administration to create jobs, support the transitioning to a digital/green economy, and grow South Korea's role as a post-pandemic global leader, is a crucial step for South Korea in tackling these challenges.

Enhanced bilateral cooperation in the Indo-Pacific could take several forms, including new joint efforts on improving regional connectivity, supporting regional regulatory and legal capacity building, and strengthening regional data governance norms and values. South Korea has not only been a global leader in the roll-out of 5G and other emerging technologies, but it has also demonstrated skill in carefully balancing the use of big data to address emerging societal challenges (such as the COVID-19 pandemic) while ensuring accountability of such tools to democratic governance. South Korea could thus be a key partner to countries in the region that are looking to update their own legal frameworks around digital development, including sharing its own lessons learned in tackling reforms.⁸¹ For South Korea, it will be essential to also make progress on addressing their own domestic digital innovation challenges if they hope their respective approaches to digital development might be viewed as one of the best in the world. South Korea, for example, must resolve the issue of SMEs struggling to achieve the same results in data applications as larger firms.⁸² Adhering to the course of development of innovative technologies, South Korea should systematically plan the development of Chaebol and its effects on the economy.

The pandemic compounds pre-existing challenges, many of which are shared to various degrees by most OECD countries; rapid population ageing and relatively low productivity in parts of the economy. Korea has the fastest ageing population in the OECD, with the number of persons aged 65 or over projected to exceed 80% of the working-age population by 2060, the highest ratio in the OECD. The shrinking working-age population will weigh on GDP growth over the coming decades. However, better mobilizing labor resources, especially from women, older workers and youth, can partly counteract this trend,

⁸¹ Sorbe, S.: *Digital dividend: Policies to harness the productivity potential of digital technologies*, OECD Economic Policy Papers. Paris: OECD Publishing, No. 26., 2019., pp. 10.

⁸² Ibid.

as well as help to build a more inclusive economy and society. Moreover, each worker has the potential to create more value. While productivity is high in manufacturing, especially for information and communication technology equipment, it is lagging in services.⁸³ Digital technologies, in which Korea is a top player, offer vast opportunities to raise firms' productivity and people's well-being. Policies should aim at promoting the diffusion of technology across the economy and addressing digital skills gaps. Regulatory reforms, based on the recent experiences with sandboxes, which allow waiving some regulatory obligations to encourage innovation in products or business models, could boost growth and offer people better access to valuable services.⁸⁴ The development of "chaebols" (South Korean forms of industrial and financial groups) in the 20th century ensured high growth rates for the country's economy. At the same time, the hierarchical structure of these conglomerates limited internal competition. Nevertheless, the Government of the Republic achieved significant progress in creating a set of basic legal, social and political rules aimed at regulating the activities of economic entities.

⁸³ Ibid.

⁸⁴ Ibid.

5. CONCLUSION

South Korea is one of the extremely successful Asian economic tigers and is classified as a newly industrialized economy. South Korea's economy relies on strong exports and suffered severe blows during the global financial and economic crisis of 2008 and 2009. In the years that followed, South Korea's economy achieved modest growth by Asian standards. Series of economic reforms, allowed South Korea to emerge from the crisis fairly quickly restructuring of large companies (chaebols), privatization of banks and general liberalization of the economy are the main areas of work of the country's government. In 2004, the outlook for the economy did not look as good as it had a few years before. Active trade with China, however, has become a good factor for the development of South Korea.

During the reign of General Pak, chaebols appeared in the country - large private conglomerates engaged in various activities. Thus, the state retained ownership of railways, electricity sources, water supply, roads and ports. The emergence of chaebols had a favorable effect on the increase in exports from the country. Samsung, Hyundai, Daewoo LG and SK Group make the five largest chaebols. These chaebols collect a large part of innovation and new technologies, leaving little space for the advancement of startups. This arrangement keeps Korea too dependent on exports while preventing the productivity and economic disruptions needed to move the nation upmarket.

From their inception, chaebols have been private enterprises not connected to political power. In the sense that their successes and failures did not depend on their connection to the top. Second, they had no natural resources and developed exports through the processing industry. Moreover, they also exported to Western markets, which are very demanding in terms of quality. Chaebols, as well-known conglomerates, dominate the South Korean type of capitalism, and are expected to do so in the future. Although the biggest limitation in the economic sense is the Russian-Ukrainian war, as well as the uncertain situation with the COVID-19 pandemic, chaebols still stand strong on the domestic and international market.

It can be concluded that the chaebols have a great influence on the economy of South Korea with the aim of maintaining industrial and commercial development and employment, rather than individual consumption. From the economic standpoint, both SME's and chaebols have to maintain a high growth rate in order to boost South Korean economy to even higher levels.

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