

**CHAEBOL'S ROLE IN SOUTH KOREA'S
ECONOMIC DEVELOPMENT**

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Executive Summary

1. Family controlled conglomerates' (chaebols) importance in South Korea's economy has grown rapidly after the global financial crisis. Sales revenue generated by the top five chaebols in South Korea was equivalent to 58% of the country's gross domestic product (GDP) in 2015, increasing from 37% in 2008 and 45% in 2009.
2. The country has become a key manufacturer in both heavy industry and high technology sectors in the world thanks to chaebols' business success. In 2015, 17 Korean companies, from 11 in 2005, were listed as Fortune 500 companies in terms of total sales revenue. Nine are in electronics, machinery, automobile and electric power. Oil and services have four companies each.
3. Chaebols' development has the government's long-term support since the end of World War II to thank for. By setting up entry barriers in selected manufacturing industries and giving financial privileges to certain large firms, the chaebols-led "miracle on the Han river" had been shaped during Park Chung Hee's administration in the 1960s and 1970s.
4. South Korea's economic turmoil after the Asian financial crisis exposed the weakness of its growth model based on chaebols backed by the government. Although some chaebol affiliates either went bankrupt or were sold to foreign investors after the post-crisis reforms, some have continued to develop with steady net profit growth.
5. After the global financial crisis, chaebols' growing wealth has become more polarised. The "big four", including Samsung, Hyundai Motor, SK Group and LG, accounted for 90% of the top 30 conglomerates' net profits in 2013, a clear increase of 50% to 70% between 2009 and 2012.
6. The number of affiliates owned by top 30 chaebols had also grown to 1,246 in 2012, up from 843 in 2007. Through cross-shareholding between main companies and their subsidiaries, the founding families continue to be chaebols' main stakeholders.

7. Although small and medium-sized enterprises (SMEs) have limited profit margin, they employed 87.7% of Korean workers in 2012. The wage dispersion between large and small firms has raised concerns about the growing income inequality.
8. Nonetheless, short-term economic growth goal prevails. To stimulate the Korean economy, Lee Myung-bak (2008-2013) and Park Geun-hye (2013-2017) governments launched several pro-large business policies that benefited chaebols' business operation.
9. Chaebols will continue to play an important role in South Korea's effort towards an innovation-based economy. The country's greater involvement in both bilateral and multilateral free trade agreements (FTAs) will also facilitate their expansion abroad whereas the less qualified workers and less competitive sectors at home will suffer.
10. On the other hand, South Korea's greater economic opening up through FTAs will make it more attractive for foreign investors who will make up for the limited job supply from chaebols. Korean SMEs can also improve their competitiveness and benefit from the "technology transfer" from foreign investors in the West.