



CHAEBOL SİSTEMİ

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CHAEBOL SYSTEM

ÖZ *Chaebol* ünlü Güney Kore holding sisteminin adıdır. 1960'lı yıllardan bu yana, *Chaebol* şirketleri Güney Kore'de ve uluslararası piyasalarda aktif ve önemli roller üstlenmektedir. Güney Kore'nin hızlı ekonomik kalkınma sürecinde *Chaebol* şirketlerinin önemli katkıları olmuştur. *Chaebol* şirketleri ülke içinde ve uluslararası piyasalarda sağlam görünüme sahip olsa bile, bünyelerinde birçok sistematik problemleri de barındırmaktadır. Örneğin *Chaebol* şirketleri, hala CEO ya da CFO'lar yerine kurucu aileler tarafından yönetilmektedir. Bu çalışmada, *Chaebol* sisteminin eksik yanlarını göstermek için Japon *Keiretsu* sistemi ve Güney Kore *Chaebol* sistemi karşılaştırılacaktır. Ek olarak, Güney Kore Hükümeti ve *Chaebol* şirketleri arasındaki sıkı ilişki, birçok Güney Kore Şirketi'nin zayıflatmış ve 1998 Güney Kore Resesyonunu tetiklemiştir. Bu makale *Chaebol* sisteminin, avantajlarına ve dezavantajlarına odaklanmaktadır. Çalışma kapsamında *Chaebol* sisteminin; tarihi, gelişim süreci, Güney Kore'nin krize yakalanmasındaki etkisi incelenmektedir. Bu çalışma, özellikle İngilizce literatürdeki eksikliği gidererek *Chaebol* sisteminin anlaşılmasına katkı sağlayacaktır.

Anahtar Kelimeler: *Chaebol*, Güney Kore, *Keiretsu*, Kore ekonomik krizi

ABSTRACT *Chaebol* is a well-known Korean conglomerate system. *Chaebol* companies contributed a lot during the Korean rapid economic development. Since the 1960s, *Chaebol* companies have been taking active and severe roles in the Korean economy and the international market. Although *Chaebols* are domestically and internationally robust, they have many systematical problems. For instance, *chaebol* firms are still bossed by the founder families instead of the professionals, e.g., CEOs and CFOs. Therefore, the Japanese *Keiretsu* system and the Korean *Chaebol* system are compared in order to define the weakness of *chaebols*. In addition, the close relationship between the Korean government and *Chaebols* weakened the strength of many Korean companies and triggered the 1998 Korean recession. This article focuses on the *Chaebol* system, its advantages, and disadvantages. In the paper, the history of *Chaebol*, its development process, and its causation of the Korean crisis are investigated. This research will help understand the *Chaebol* system since there is a lack of research about the *Chaebol* system in English.

Keywords: *Chaebol*, South Korea, *Keiretsu*, Korean economic crisis

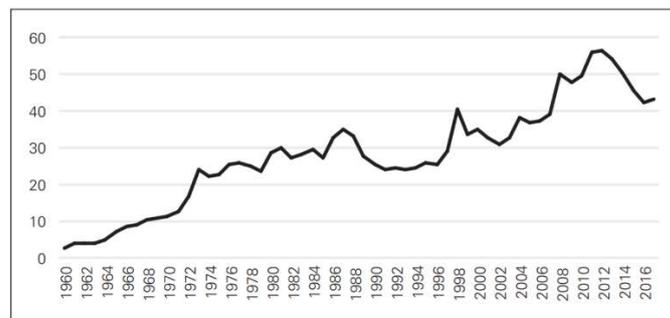
INTRODUCTION

Industrial and technological improvement is the most crucial economic development method. Every underdeveloped and developing country has a try to enhance a suitable industrial and technological development method to grow and catch up with developed nations rapidly. Some countries completed their development adventure in 200 years, while some miracle economies developed themselves within 30 years. South Korea is one of the miracle economies.

South Korea was one of the poorest countries in the world in the 1950s. However, South Korea has become one of the world's wealthiest countries with an economic and industrial spurt. During the development, the Korean government supported Korean companies financially, and those companies, which is called Chaebols now, switched their sectors with the heavy and more technological sectors, in consequence of the aggressive export plan made by the Korean government in the first economic development plan in the 1960s. That economic maneuver is a milestone in the way of economic development. Besides, chaebols played incredible roles during the economic development period (Ko, 2007, p. 130,131,135).

Chaebols helped South Korea's export-oriented economy improve rapidly in 30 years¹ (Figure 1). Therefore, many countries imitated the Chaebol's system to be able to develop rapidly as South Korea². However, Chaebol conglomerates have many structural problems. Chaebols, for instance, are still managed by the founding families instead of professionals, and Chaebol companies have close ties with the Korean government in monetary terms (Albert, 2018). Kuk (1988, p.131) also asserted that Chaebol companies relied on the government to keep growing.

Figure 1. Export over GDP– % (South Korea, 1960-2017)



Source: Bresser-Pereira, Jabbour, & Paula.2020

In this research, the chaebol system and its historical development are explained; the Chaebol system and Japanese Keiretsu system are compared; the 1998 Korean economic crisis and Chaebol's role during the crisis are investigated, and finally, the Chaebol reform is clarified.

¹ Kim (2013, p.2 and 3) mentioned that Chaebols effect and weight on Korea's economy is significantly high, and they are the fulcrum of the Korean economic development.

² China applied the Chaebol system to its market. China created enormous conglomerates (The Economist, 1997). Taiwan also created a corporate group that have similar structure to Korean and Japanese system (Grabowicki, 2006, p. 55).



CHAEBOL AND KEIRETSU

Chaebol is a conglomerate group system that many large Korean private companies suchlike Samsung, Hyundai, Kia, LG, and Lotte have been paying a critical role in South Korea's rapid export expansion and economic growth. Forty-five businesses, which manages 85% of Korea's GDP, are Chaebol members that enable them to access cheap loan from Korean banks thanks to the political power coming from lobbying activities. Chaebol has many merit and demerit due to reasons that will be discussed in the coming paragraphs.

Japanese Keiretsu System, And Similarities And Differences With Korean Chaebol

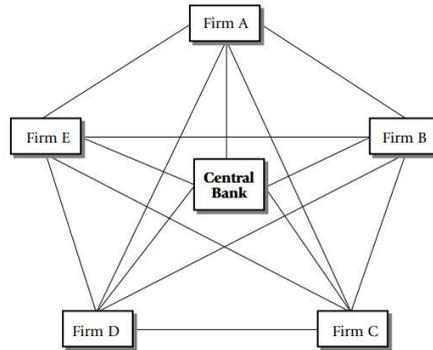
Japanese Keiretsu System

Keiretsu groups³ played vital roles in the restructuring of declining industries in Japan. The Japanese economy, after the second world war, strengthened quickly, thanks to the idea of Keiretsu. The companies have strong ties with banks and the government due to the reason that during bad economic conditions, companies get financial aid from banks or the government without any registrations. In these circumstances, companies do not face bankruptcy or other economic threat. This situation allows Japanese companies to take any economic risk and action to strengthen themselves. That point, of course, brings risks and opportunities at the same time: firstly, if it is looked at from the viewpoint of opportunities, companies in the world's economy catch a lot of economic chance and opportunity against other companies due to the fact that the government guarantees their business future; secondly, if it is looked from the viewpoint of risks, taxpayers, in cases of economic crisis or depression, have to pay more taxes for the bailout, and also some companies in a country are made monopolized by the states. Videlicet, to develop and grow the economy, the governments create monopolistic markets. However, the Japanese case led the companies to monopolize the market, not the families⁴ (Nakatani, 1984, p.71).

³ In the 17th, 18th, 19th Centuries, Japan had another economic organization called "Zaibatsu" that laid the foundation for Keiretsu's establishment. Zaibatsu contained many feudal and silk merchant families. Those families exported many goods, especially agricultural products and silks, to European countries and strengthened their businesses by getting money from the Japanese Kingdom. In the 19th century, those companies with the Kingdom's help transferred themselves to industrialized companies. In 1898 Hypothec Bank of Japan, which provided long-term credit mortgages secured for agriculture and food sectors, was founded. Many conglomerates managed by individual families who got rich quickly thanks to riskless economic opportunities prospered until 1929, when the Great Depression occurred. However, in 1929, 1930, 1931 Great Depression hit the Japanese economy seriously as well. Many family conglomerates went bankrupt even if the banks supplied much economic aid to them. During the economic depression, the Japanese banks purchased almost all Japanese companies within the Zaibatsu groups' structure. After the Second World War, the Japanese government set another economic organization called "Keiretsu." Keiretsu companies, although they have close ties with banks, have been managed by professional CEOs and CFOs. In other words, companies are not managed at a family's pleasure but managed at the company's interest (Grabowiecki, 2006, p.5).

⁴ In Japan Keiretsu companies have professional manager staffs, yet in Korea Chaebol companies still belong to founder families (Grabowiecki, 2006, p.51 and 55).

Figure 2. Keiretsu Structure



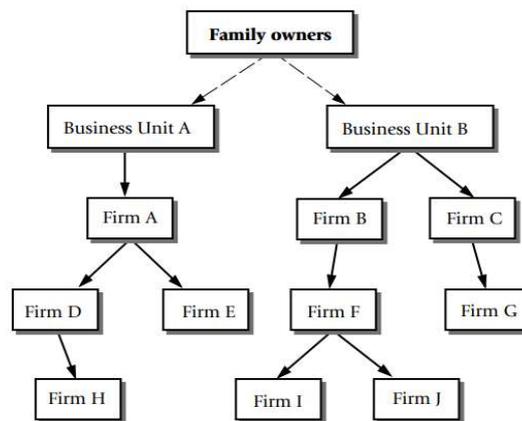
Source: Tu and Kim 2002,42

Korean Chaebol System

The government of Park Chung Hee launched a financial aid campaign for Korean companies, which could produce technological devices to export, at the beginning of the 1960s basing on the Japanese system called “Keiretsu”. In Keiretsu system, conglomerates are mostly bank-dominated industrial groups that perform a major function: the bank-centered financing system functions as a capital provider. In Chaebol system, the companies are mostly owned and bossed by their founding families (Clark, 2000, p. 22).

In Japan, the central bank is always financially prepared to offer bailouts to its member firms that face bankruptcy or financial difficulties. Japanese conglomerates, most of the time, shun the bankruptcy thank to the close bank ties. Therefore, Japanese central bank (main bank) monitors the system closely. In the Chaebol system, Korean conglomerates get financial aid and the cheap loan from the government. Nevertheless, the Chaebol system has a lack of external monitoring structure and system could trigger an economic recession, as it did in 1998. In South Korea, Chaebol companies also have incredibly close ties with the government, which sometimes makes an economic regulation at the Chaebol’s pleasure. From time to time, that paves the way for lots of economic and political problems such as corruption and bribery (Song, 1990, p.64).

Figure 3. Chaebol Structure



Source: Tu and Kim 2002,41

Comparison of Keiretsu and Chaebol

- Keiretsu are owned by cross-stock ownership, but Chaebols are family-owned conglomerates and have decisive autocratic leadership.
- In the keiretsu system, banks are core group members. However, in South Korea, the government does not let chaebols own banks.
- Expansions are based on family moods and the government policies in the Chaebol system, yet expansions are based on MITI⁵'s long-term plans and the group's strategic planning.
- The Korean government reorganized Chaebol's internal goals through the development plan agenda, while Keiretsu's internal goals are dictated by the financial institution's long-term returns.
- The Korean government enforces Chaebols to follow industrial policy through direct grants and subsidies. The Japanese government supports Keiretsu groups with industrial policy through research subsidies.

The chaebol system was based on the Keiretsu system by the government of Park Chung-hee to catch-up to the high economic growth rate that brings economic development. However, Korean governments modified the Keiretsu system so as to keep chaebol companies under government control.

In both systems, companies can easily reach the credit to have an advantage in the international market. When they have economic difficulties, the cheap-credit system saves the conglomerates in Japan and Korea. The main bank always helps Japanese companies directly in case of economic difficulties. Thus, Japanese companies avoid bankruptcy. The main bank (central bank) monitors the credit system and checks if credits are used wisely. Besides, share-holders of Japanese companies have a check-and-balance mechanism. However, in Korea, the government controls the credit system and gives financial aid to Chaebols, but the Chaebol system does not have a strong monitoring system like the Japanese main bank. In addition, Chaebol owners (founding families) control and use the whole capital. Namely, the Chaebol system does have a check-and-balance mechanism. (Park & Yuhn, 2012, p. 261, 262, and 263).

Moreover, Keiretsu companies have weaker ties with the government and banks as they become more active in the international market (Huh & Kim, 1993, p. 3), and Japan does not depend on a few companies since it has many corporations. Nevertheless, Chaebols still have enormous power in Korea, and Korea's economy relies on a few large chaebol companies (Min-Hua, 2017, p. 64), and the total revenue of Chaebols is almost equal to Korea's total GDP. That endangers the future of the Korean economy and create obstacles for the entry of new business (Min-Hua, 2017, p. 64; Park & Yuhn, 2012, p. 261)

As has been mentioned, the Chaebol cooperations have close ties with the government and government institutions. This close relationship sometimes causes the corruptional relationship between the chaebol owners and politicians. For instance, Samsung's de facto leader and the Korean president were sentenced because of the bribe (Smith, 2021). Japan has not had any corruption issues between Keiretsu companies and politicians due to the fact that Keiretsu does not have a family-based management structure and does not have close ties with the government as much as the Chaebols have.

⁵ Ministry of International Trade and Industry

In short, the Japanese Keiretsu system has a better structural design and system than the Korean Chaebol system. The first advantage that the Keiretsu has is that the main bank monitors the cooperations closely. The second advantage is that professionals manage Keiretsu conglomerates. Nonetheless, both the Japanese Keiretsu and Korean Chaebol conglomerates are strongly related to guaranteed loans, making them have a weak business structure and become more fragile. This weakness endangers the Japanese and Korean economies (Gerald, 2014, p. 110).

Table 1. Structure Type of Keiretsu and Chaebol Companies

	<i>Keiretsu</i>	<i>Chaebol</i>
<i>Factor Ownership</i>	Cross-Shareholdings	Family (often disguised)
<i>Products</i>	Specialised	Diversified
<i>Finance</i>	Ingroup Bank	State, Debt
<i>Market</i>	Protected Home Market and Global Sales	Protected Home Market + International Expansion
<i>Technology</i>	Licensed-In	Group Development (Incremental)

Source: Buckley, 2004, 269

As seen in Table 1, chaebols have a family-based business structure. The founder family manages the companies and control the companies budget and loans. Family controlling handicaps the deeper professionalization, in which Chaebol cooperations decouple negatively from Keiretsu cooperations.

History of Chaebol

Establishment of the Chaebol Companies from 1950 to 1960

The occupation of Korea by Japan from 1910 to 1945 stifled any potential entrepreneurial class in Korea. A handful of the Korean chaebol groups started their business under the privative circumstances of the Japanese occupation. After the Korean war, in the 1950s, South Korea suffered from an economic crisis. The government of the 1950s in South Korea did not have any economic plan or structure for the future of South Korea to overcome the many economic problems. South Korea's people were one of the world's poorest nations; they struggled with extreme poverty. By 1954, South Korea's GNP per capita⁶ was \$ 220 when the United States citizens had approximately \$ 2400. U.S. citizens had ten times bigger GNP per capita by 1954 than South Korean citizens had. The 1950s government in Korea did not make a stride of the problems of people's low living standards. Between the years 1950 and 1960, South Koreans suffered extremely from finding food and medications. Until the late 1950s, Korea's total annual exports averaged less than 40 million, with considerable fluctuations. The largest export item, then, was tungsten ore, and exports, in general, were dominated by primary industrial products such as agricultural and fishery products (see Table 2) (Kim 2001, p.96). Then, Samsung, the biggest Chaebol company now, was the producer and exporter of the fishery, grocery, and noodles. Many Korean chaebol companies (e. g., Samsung, SK group, Kia) were the manufacturer of textile, agricultural products, or bicycle parts in the 1950s.

⁶ GNP per capita: GNP/Population

Table 2. Major Export Items in the 1950s

Year	1953	1955	1960	1961
Item and percentage of total	Tungsten (43.9)	Tungsten (31.8)	Tungsten (14.2)	Tungsten (11.0)
	Laver (6.9)	Silk (9.8)	Rice (11.5)	Iron ore (10.4)
	Silk (6.3)	Agar-agar (5.6)	Iron ore (7.5)	Silk (6.9)
	Agar-agar (4.9)	Graphite (5.6)	Cotton textiles (7.4)	Pork (6.1)
	Fresh fish (4.8)	Swine bristles (3.8)	Fresh fish (4.7)	Dried fish (6.1)
Total	66.8	56.6	45.3	40.5

Source: N. N. Kim, 2011

Due to the extreme poverty that South Korea had, the U.S. offered Korea free aid amounting to approximately \$ 2.15 billion to back South Korea in order to show the rest of the world that capitalism was a better system. Subsequently, South Korea's government and the United States government made a financial aid agreement, which would help South Korea recover its economic situation. With the American financial aid, the ruler party backed the agricultural sector that produced foodstuffs for export and domestic markets. The rapid development of textile, flour, milling, sugar refining, and leather industries in the 1950s was mostly due to American aid, which provided the momentum in the 1960s for some of these industries to grow into competitive export industries (Kim, 2001, p.90). In the 1960s, the Korean government, ruled by Park Chung-hee, planned the leap-forward-economic-move to dispose of poverty.

At the beginning of the 1960s, many Korean companies had already been established in the food and textile sectors. The ruler party decided to fund those companies to produce exportable goods in order to import essential goods from abroad. However, Park Chung-hee was willing to export technological devices that were more valuable than agricultural goods or textiles, while the South Korean business was producing groceries and clothes. Therefore, the government agreed with those companies to supply cheap loans on the condition that they switch their sectors with other sectors that could export more goods and services (Kang, 1996, p.38 - 45).

With the government's help, Chaebol companies became massive and substantial conglomerates during the 1990s and significantly influenced the government as the policymakers took economic action. The government started to make an economic rule or policy at Chaebol's pleasure. Until 1997, managers of Chaebol firms expanded their business and enjoyed a high economic growth rate. However, by 1997 the "Big Asia Crisis" knocked on South Korea's door and stormed in. Many companies, especially Chaebol companies, faced bankruptcy or went bankrupt; many Koreans lost their jobs. In short, Korea's economy fell into economic depression. After that crisis, the Korean government re-regulated the Chaebol system with some strict rules (Lee P.-S. , 2000, p. 2 and 3).

Table 3. Korea's two major economic indices (1954- 1982), based on the constant price of 1975

	1954	1962	1972	1982
Per Capita GNP (dollar)	220	239	454	815
Investments/GNP (%)	1.9	12.8	22.2	27.0

Source: Park, et al., 2015

As shown in Table 3, GNP per capita increased by 370% between the years 1954 and 1982. Namely, within 28 years, the people of South Korea had about four times bigger GNI per capita. Likewise, investment also significantly rocketed up to 27% in 1982 from 1.9% in 1954, which is about 14 times bigger. This success

came with the wise investment choice done in the correct sectors⁷ that enabled Korea to be one of the biggest export expansion countries.

The Chaebol During and After the 1960s

At the beginning of the 1960s, South Korea was a regular developing country with a high inflation rate, price controls on essential commodities, a large fiscal deficit, limited import policies for the protection of domestic manufactures, overvalued exchange rate supported by quantitative restrictions on imports (and a black market in foreign exchange). To improve the export oriented-economy, policymakers in South Korea focused on measures to increase exports. Policymakers let the chaebols access credit, which was vital for expansion (Krueger & Yoo, 2002, p. 606 and 608).

Thanks to that accessible credit during that period, all the chaebol firms, internationally most robust now, began increasing their positions, expanding their businesses, and gaining ground to become successful exporters in the global economy (Andolfo 2018). Many chaebol firms began dominating Korea's economy after having financial power given by the government itself. With the government's directive and financial help, chaebols had the edge over other local and global firms and showed remarkable economic growth. Some chaebols (Table 4) became dominators in South Korea's economy (KIM and VOGEL 2011, p.451).

Table 4. Changes in the ranking of the ten largest chaebols by total assets, 1960-1993

Rank	1960	1971	1977	1987	1993
1	Samsung	Samsung	Samsung	Hyundai	Hyundai
2	Samho	Lucky	Hyundai	Samsung	Samsung
3	Samyang	Hanjin	Lucky Goldstar	Lucky Goldstar	Daewoo
4	Gaepung	Sinjin	Daewoo	Daewoo	LG
5	Lucky	Ssangyong	Sunkyung	Sunkyung	Sunkyung
6	Daehan	Hyundai	Ssangyong	Ssangyong	Ssangyong
7	Dongyang	Korea Explosive	Korea Explosive	Korea Explosive	Lotte
8	Hwasin	Geugdong	Kukjae	Hanjin	Kia
9	Korean Glass	Daenong	Hanjin	Hyoseong	Korea Explosive
10	Geudong	Sunkyung	Hyoseong	Lotte	Hanjin

Source: Andolfo,2018

After 1979, the new Korean government decided to make some changes to the Chaebol system. First of all, it stopped providing loans to private Korean companies (chaebols) and prepared a "rescue package" for companies that had economic difficulties in order to help. That rescue package did not help small businesses to recover their economic issues, and later on, they were bought by other big chaebol firms such as Samsung, Hyundai, and Daewoo. Namely, after the new law, some chaebol conglomerates gained more power. Thanks to their law phenomenon: low exchange rates, low international interest rates, and low petroleum prices (Le, Kim and Kim, 2016, p.259).

⁷ South Korea firstly invested in agriculture, and after that, invested in the industrial sectors that produced raw materials. Subsequently, the Korean government advised companies to switch their industries to a heavy industry where shipbuilding, vehicles, television, radio, light were produced (Graham 2003, p.36).

During the 1980s, the chaebol groups had almost dominated 70% of South Korea's economy and gained augmenting international recognition. In 1983, the 50 largest chaebols had sales equivalent to nearly 94 % of GNP. There were 50 largest South Korean companies in 1986, and 30 were owned by the ten largest chaebols (Table 4). That same year, these ten largest chaebols had total sales of over 65 billion dollars, which means that 65% of South Korea's economy (Kang, 1996, p.187 and 188).

Table 5. Chaebol Subsidiaries Listed Fortune 500 (non-U. S. corporations)

Rank	Chaebol	Revenue (US\$ m)	Net income (US\$ m)	Employees (no.)
40	Samsung	21,148	250	160,600
68	Lucky-Goldstar	14,487	181	88,400
75	Daewoo	13,498	37	94,900
186	Sunkyung	6,812	91	19,800
206	Hyundai Corp.	6,387	4	900
320	Ssangyong	4,603	75	16,000
382	Hyundai Motor	3,972	113	29,800
434	Korea Explosive	3,526	NA	17,800
463	Hyosung	3,272	59	24,000

Source: Fortune, 1988

In 1997 and 1998, the Korean financial crisis hit Korea's economy and had a devastating impact on Korean companies, especially Chaebols. The Korean financial crisis started because of government failure in two significant policy areas: exchange rate policy and industry policy.

The Korean government pegged the Won⁸ to the U.S. dollar, which induced the failure of the exchange rate policy. As a result of pegging, the Won appreciated as much as the U.S. dollar, which diminished the Korean export potential. In 1997 financial markets and investors considered Won as overvalued currency. Therefore, Chaebols manufactured Korean products were unable to compete with the other international companies due to the relatively expensive product prices. Thus, the Korean government then devalued the Korean Won and guaranteed the Chaebols and other businesses that foreign exchange risk did not exist. However, the devaluation of the Korean Won caused many financial issues. The problem was that Korean banks and companies (mostly Chaebols) were up to their ears in foreign debts. So, that wrong political decision dragged Korea's export-oriented economy into a mega economic crisis. During that financial crisis, many Chaebols either went bankrupt or obtained bank protection (Black and Black 1999, p.44 and 45). Daewoo, one of the giant conglomerates, and 25 chaebols went bankrupt due to credit debt⁹.

The Reason for the Korean Financial Crisis

The reason for the Korean financial crisis is that the Korean government let the chaebols access loans with the low-interest rate for more than 30 years, which created weaknesses. Besides, chaebols had close ties with politicians who provided cheap loans that the backbone of the Chaebol's growth. Korean government in the 1980s decided to rapidly open the Korean domestic market to international competition without taking any careful precautions in the Korean local market (Balino & Ubide, 1999, p. 20)

⁸ Korean national currency

⁹ The growth of the chaebols in South Korea was often attributed to the cheap credit that they received during the development (LIM, 2012, p. 77). Easy access to cheap credits left chaebol companies unprotected against the international competition.

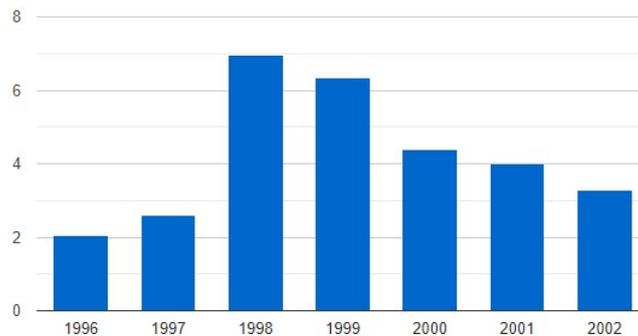
Another issue that caused the Korean financial crisis is that the Korean education system does not provide skilled labor forces. As the Korean economy developed quickly and moved toward the level of developed countries, its products became more complex and more deeply integrated into the world economy. However, the Korean education system was not modernized, did not involve the changing needs, and still retained its repetitive memory-oriented methods that proved successful in earlier periods. So it did not cater to the Korean economy's urgent needs of creative and highly skilled labor force such as entrepreneurs, workers, bankers, and the like (H. -H. Lee 1999, p.352).

The Crisis and Chaebol Reform

As has been mentioned above, the Korean financial crisis was triggered by the exchange rate and the foreign debt of Chaebols. That financial crisis bankrupted fourteen big and eleven small chaebols, including Daewoo. Therefore, the Korean government had to invoke the IMF to get a bailout package, which was worth \$60 billion. During the crisis, many middle-class people lost their jobs (Figure 3) and saving (Sung and Kim 2017).

That economic crisis and the news that the IMF's bailout caused panic among Koreans. Many patriotic and nationalist people started thinking that South Korea would lose its economic sovereignty. In this setting, Samsung and Daewoo initiated gold collection drives between workers, and this campaign spread countrywide before the end of the year. The Korea Herald reported that 225 tons of gold had been collected (Kim and Finch 2002, p.125), and South Korea did not need to use the whole amount of \$58. 4 billion bailouts (Kim, 2006, p.10).

Figure 4. South Korea - Unemployment Rate between the years 1996 and 2002, measure: percent

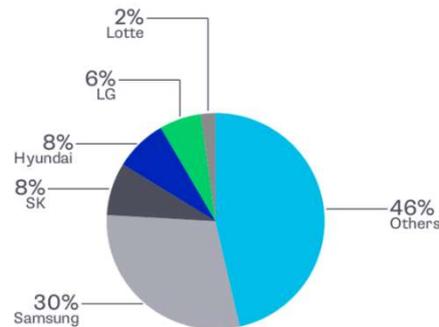


Source: The Global Economy, 2019

The Korean government reformed its financial system by switching its exchange rate system and reconstituting the structure of financial institutions and chaebols firms.

With the IMF's advice, some chaebols switched their ownership structure from a circular shareholding system to a holding company system, but some still have not yet to do so. Some chaebols still have a strong relationship with politicians and control a big part of South Korea's economy (Sung and Kim 2017, p.147). That might cause a new financial crisis in South Korea in the future because some chaebols, such as Samsung, Hyundai, L.G., Kia, and Lotte, are much greater than ever and have been controlling a much bigger portion of Korea's economy than they had been in 1997.

Figure 5. Five Biggest Chaebol = Half of Korean Stock Index



Source: Geitner, 2019

As can be seen in Figure 4, five companies control 54% of Korea's stock index. Namely, in case of economic crisis, or the failure of one of them can bring about an economic avalanche in South Korea. Only Samsung's market value is about \$350 billion, which is more significant than many countries' GDP. Therefore, the South Korean government should promote small businesses and start-up companies to verify the market.

CONCLUSION

Chaebol enabled the Korean economy to develop faster than its rivals. Chaebol corporates still strengthen South Korea's economy significantly. However, chaebol firms control a significant portion of Korea's economy, which brings massive risk to South Korea because chaebol companies are too big to fail, and Korean people and the Korean economy depend on Chaebols for economic growth. If they fail, it could be a disaster for South Korea. Therefore, the South Korean government should encourage new start-up companies and make a regulation to make the Korean market more competitive for both small and big corporations.

Korea has had a good experience in developing rapidly and being competitive in the international market. South Korea also has a technological and industrial substructure to launch many new firms. South Korea might use the knowledge to improve its market.

For economic development, developing countries and underdeveloped countries may use the chaebol system to encourage companies by not making the same structural mistakes that South Korean Chaebols had.

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