
Chaebols And Their Contribution to The Miracle Of The Han River

Unlike China and Japan - the world's second and third largest economy behind the US- South Korea has emerged as an economic power superpower in the shadows of its economic rivals. Now it has grown as a global economic power with a solid industrial base. Korea's economic success since then or in other words its rapid journey from a developing country to a developed country is popularly known as "the miracle of Han river". However, 'miracle of the Han river' regarded as the miraculous economic rise of South Korea's economic is often referred to, did not happen overnight. This paper aims to present the post-war development of South Korea and the remarkable contribution of big Korean companies and conglomerates. Secondly, how the government and companies worked together and led to the continued steady economic growth of the country. Here we will also see the government intervention in business activities and how the companies benefited from the government directed economic policies.

Introduction

Devastated by the Korean War in the 1950s, which divided the Korean peninsula into two, in the early 1960s South Korea was significantly poorer than India and Pakistan. By early 1990s, Korea has become one of the four economic powers. Per capita income grew from \$158 in 1960 to \$29,742 in 2017. Korea is the only country that developed successfully in very short span of time and became an example for many developing countries to catch up with an advanced economy. Korea has achieved both democratization and industrialization in short period. Along with its growth, there is a huge contribution from the companies, organizations which probably started from a small shop and has grown to the global giants such as Samsung, LG, Hyundai. Samsung started as a small trading company and became a leading global player in electronics and semiconductor industry. Hyundai, which started as a rice retail shop and then became leading global player in automotive and shipbuilding industry. LG, started as a cosmetic company in 1947 and today it's a global innovator in technology and manufacturing of TVs, refrigerators, air-conditioners, washing machines and mobile devices. Ikeda Motohiro, the bureau chief of the Japanese newspaper Nihonkeizai in Seoul once said that "if Samsung were not in Korea, the Korean economy would have been at the same stage as that of the Philippines...and if Samsung management would be shaky then the entire Korean economy would be shaky as well". These analysis and comments shows the importance of these Chaebols in miraculous success of Korean economy and also highlights their contribution in building such a robust base for the development of Korea.

Review of situation in the 1960s and after

After the Korean War in 1953, Korea experienced economic, political, and social disruption and underwent economic reconstruction after the Korean war. The market economy system was established by privatizing the confiscated Japanese factories and enterprise properties. Trading business became major industry in this period. Almost all major exports were primary commodities in 1961, but by 1970 they had changed to labor-intensive manufacturing goods such as apparel and clothing, electronic products, steel products, plywood, footwear and metal

products. The government encouraged imports through special loans of foreign exchange and subsidies in order to resolve the shortage of goods. Many businessmen accumulated capital and laid a foundation by learning business practices. Many Korean firms grew by diversifying into many areas. Hence, the diversified companies from the parent companies were interconnected as Korean-style conglomerate called “chaebol”.

A Chaebol is defined by two important features 1. ownership by family 2. diversified business co-operation. Initially, the Chaebol started with small firms that showed tremendous success in their business. Such firms tried to expand their business territory, and formed a Chaebol. The Chaebols lead the creation of the technological capacity, and the successful business models and know how were retained within the Chaebol’s internal system. The representative trading companies at that time were Samho Trading, Dongah Sangsa, Bando Sangsa (LG), Dachan Sanup and Hwashin Sanup. The founder, Lee Byung-chul established Samsung Mulsan in 1948 to be involved in foreign trade. This company led business in Rhee’s government. Samsung has grown into the largest business group in Korea, with \$227.3 billion in revenue and 315,000 workers worldwide. Hyundai actively participated in repairing bridges, paving roads and building army-base, simple dams and reservoirs, using appropriate technology specified by the corps of army engineers. The main forces and basis for economic growth was basically education. In order to overcome the shortcomings of technological capabilities for industrialization, the Korean government established industrial R&D institute, KIST (The Korea institute of science and technology) was founded in 1966. In the 1970s, a number of specialized research institutes were setup in the areas such as shipbuilding, geo-science, electronics, telecommunications, machinery, energy, and chemicals.

Private sectors also operated their own special schools where their workers were able to continue to study and get even high school degrees. Weber said “knowledge has been very important in industrial activities and it can be accumulated by a supportive culture and policy environment, which the government is responsible for fostering”, which we can see by going through next line. In the 1960s, government spending made up more than 90% of the total R&D expenditure. These early efforts of Korean government became the basis for the economic development and as well as for the knowledge accumulation. If we talk about private firms there was a knowledge flow in the form of capital goods import and through FDI. While using the capital goods, private firms acquired applied knowledge as well as basic knowledge of operation from codified manuals or through face-to-face meetings with technicians from abroad. So the method of learning was mainly through “learning-by-doing”.

The period of 1961-1980 was a period when government intervention was prevalent. Government-directed growth strategy focused on promoting export of labor-intensive goods and later on building heavy and chemical industries. During this period, the government accepted the businessmen as a partner in economic development, shared the goal of national development and created a good condition to activate the growth of their business. So the government performed mass policies such as establishing the economic planning board (EPB), nationalizing major commercial banks, creation of government-owned special banks. Many successful firms grew out of export business; heavy and chemical industries, actively took advantage of the special demand from Vietnam and the Middle East construction boom as momentum for their growth.

To achieve initial economic growth, the abundant and inexpensive labor force led the Korean government to adopt an outward-looking development policy and to promote export based

development of labor-intensive industries. A key factor to the success of the Korean firm was the close relationship with government. Government and the firms did not stick to one strategy, rather they tried to change their strategies when changes were needed. The government changed its policies and so did the private sector; they interacted with each-other. That means the co-evaluation of these two entities was essential for building up the effective and successful system.

Early moves to meet future development

Koreans have gained the wisdom to cope with hardship in order to survive. Many Korean scholars point out that former president Park Chung-hee contributed to the modernization of K-economy. In 1961, when President Park meet US president John F. Kennedy and asked for a loan but unfortunately was denied. On 27th Oct 1962, West Germany decided to loan Korea a loan of \$40 million and asked for the guarantor bank to count upon. At that time Korea had no such guarantor, so instead of a guarantor the Germans asked Korea to send over 5000 coal miners and 2000 nurses as an aid for 3years. The move proved to be fruitful for Koreans as they had to return after 3 years as professionals and trained workers. These workers' wages not only served as collateral, they remitted the surplus of their earnings to Korea, which boosted their homeland's economy.

Business reorganization by structural adjustment

During 1984-87, the government's protective and preferential treatment created many advantages for insolvent companies as they were mostly taken over by the Chaebols. As a result the wealth was concentrated in few hands. Also the government liquidated 54 bankrupt firms through industrial rationalization program. This laid to the change in the business geography, many Chaebols such as Samho and Kukje collapsed. Hyundai, Daewoo, and Samsung strengthened their position in this adjustment period. Korean firms regained their stability due to the small petroleum prices, low international rates, and low exchange rates. As a result, in subsequent year during 1986-88, Korea enjoyed an unprecedented surplus in current account.

Business growth through globalization

It was totally different environment for Korean economy after the democratization declaration of 1987. It has a significant impact on Korean economy. The labor force opened strikes for improved wage rates, shorten work hours and improve working conditions. Collapse of Soviet Union and opening of Chinese market gave Korean firms access to newly opened market and Korean firms faced the global growth era by taking this advantage. And through this they resolved the labor problem by wage hikes, improving working conditions and shortening the working hours and gradually restoring stability.

Big deal and restructuring Chaebols

Financial crisis of 1997 brought about some major government economic policies which included deals such as swapping business among Chaebols, improving the corporate financial structure, enhancing corporate transparency and governance system, reform of financial

institution and privatization of public enterprises, etc. In 1998, the government and the 4 largest Chaebols agreed on: first, enhancing the transparency of corporate management; second, eliminating cross-debt guarantees; third, improving capital structures; fourth, focusing on core business and strengthening the cooperation with small to medium enterprise (SME); fifth, raising the mission of controlling shareholders and managers. The Chaebols that survived were urged to do their best for restructuring through the invitation of foreign investment, asset sales and consolidation of subsidiaries. And also all companies were required to establish committees of external auditors and included external members of the executive director committee for the transparent decision-making process and elevated responsibility. In 1998, a comprehensive privatization plan covered eleven big enterprises which aimed to complete transfer of control of the public enterprises to the private sector. Many infrastructure or utilities companies were included.

Chaebols and their contribution

The focus on industrialization led to the emergence of a number of family-controlled conglomerates widely known as Chaebols, which even today controls most of the industrial sectors. The unwholesome co-operation between the military backed government and the Chaebols, which agreed to share part of their profits with the ruling regime, led to a fast growing and partly state-driven economy based on globally distributed electronic goods and light manufacturing giants. The government-Korean companies recipe proved to be successful and over the course of 50 years it led to the creation of a well-educated and consumer driven middle class as well. In Korea's economy, the weight of the Chaebols is significantly high. The scale of their property was 35. 1% of GDP in 1992; it increased to 60. 3% in 1998 with growths of 25. 2%points for 6 years. The number of Chaebols' affiliates is currently much greater.

Despite the fact that the business performance of them was great, their contributions seem to be smaller than in the past. The modern generation has a new class of entrepreneurs and they want to play a key role in the country's economy and also wants government to curtail the power of the Chaebols- many of which are accused of million-dollar corruption scandals and as well as pursuing anti-competitive practices. Among Korean people, they have two opposing opinions. From the positive, Chaebols are a central component of Korean economic growth and a hero of Korean exports. High-tech brands are symbols of the high status of Korea over the world. From the opposite view, with the monopoly ability, Chaebols force small and medium sized companies to make unfair deals with them. Furthermore, they rapaciously enlarge their business to small-scale areas through their superior capital power. The convergence of economic power driven by Chaebols is a symbol for the increased revenue discrepancy between the people classes in Korea.

Conclusion

This study presents post-war development of Korean economy and exceptional focusing upon the contribution and role play of Korean companies. It is motivated by the extraordinary achievements of such an amazing growth by Korean government and Korean companies. The very impressive thing that I got to know through this study is how they achieved both the economic success and democracy together. Korea has not only achieved the rapid growth but also succeeded at home economically and showed their economic prowess to the world. I also got to know that how the greater freedom and social inclusion are no longer 'nice to have' -

they are now a 'must have' for Korean people. The Korean companies, particularly Chaebols still have some drawbacks. But overall, they have some valuable lessons to be learned for the developing countries companies or western companies. Which includes the following factors and principal that led the Korean companies to grow: the close relationship with government, determined clearly objectives and growth pattern, strive for finding the resources, technology, and support from government, focusing on employee training activities, concentrating on high growth of high technology through investing in R&D and in foreign companies, and consistently focusing on upgrading of quality of products, and technology used. Seeing the hardship and efforts of both the government and Korean companies, i would like to say that the stunning growth of South Korea would not have been possible without the joint efforts of both the government and the Korean companies, particularly the Chaebols. The writing of this paper has broaden my knowledge of the factors behind the Korea's success at home and abroad.

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