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**ANALYSIS OF THE IMPACT OF SOUTH
KOREAN PUBLIC POLICIES ON THE
DEVELOPMENT OF THE CHAEBOL MODEL
DURING THE PERIOD CALLED THE MIRACLE
ON THE HAN RIVER AND ITS CURRENT
SITUATION**

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ANALYSIS OF THE IMPACT OF SOUTH KOREAN PUBLIC POLICIES ON THE DEVELOPMENT OF THE CHAEBOL MODEL DURING THE PERIOD CALLED THE MIRACLE ON THE HAN RIVER AND ITS CURRENT SITUATION

Abstract

South Korea's economic development has had the Chaebol model as one of its fundamental bases. This model principally depended on the public policies of the South Korean government. These conglomerates were an essential part of the industrial development of this country, which allowed Korea to open up to international markets. This study aims to determine which public policies prevailed in the development of the Chaebol model and what were the effects this model had in South Korea. For this research, the method chosen was Comprehensive Literature Review (CLR), which brought up relevant information. According to the authors, the HCI policy, financing policy, export promotion policy, segyewha policy, and the policy of post-crisis reform were the leading policies in the development of the Chaebol model. Likewise, the research showed that although this model had adverse effects on the country, it also had several positive effects that, in the long term, caused South Korea to reach such levels of growth in such a short time.

Keywords

Chaebol; South Korea; Trade policy; Foreign trade; Public policies.

Introduction

Over the last 30 years, different researchers have tried to establish the characteristics that distinguish a rich country from a poor country. Chang (2010) considers that one of the most important differences between poor and rich countries is their manufacturing capacity, which causes higher productivity and faster economic growth. Likewise, Dobb (1982) points out that the manufacturing production of machinery, capital goods, and construction materials is extremely important for economic growth. In this way, production becomes a limiting factor for the economic development of countries. Despite this, the development of industry is not enough since it is necessary to implement certain policies that support manufacturing production. One of the best-known policies to achieve this is through trade opening. Krugman (1989) suggests a scheme that shows an increase in foreign currency inflows when exports intensify. Moreover, it shows a growth in imports of capital goods, which positively impacts manufacturing production due to the strong transmission of technology.

Over the last few years, a small country located in East Asia showed the importance of boosting industrialization and opening up to foreign markets. This has positioned it as one of the most important economies despite being a territory that does not have natural resources like other regions of the world (Orozco, 1992). South Korea (Korea, from now on) is a country that was invaded by Japan several times and is even in a truce with North Korea due to clashing ideological differences between the two territories. Despite these circumstances, it became a leading industrial producer throughout the world in no more than thirty years (Grinberg, 2014). This country, located to the west of Japan, has had an accelerated economic growth that it became one of the four Asian tigers along with Taiwan, Hong Kong, and Singapore (Long Le et al., 2016). This period of modernization and economic growth was so important that it was given the name "Miracle on the Han River" due to the fact that its population went from living in one of the poorest countries in Asia to being part of an industrialized country in a few years (Yoo & Lee, 1987). But what were the causes of this modernization and economic growth?

Although it is true that in this period of industrialization, many factors played an important role, in particular, making the difference. Chaebol conglomerates are family-owned businesses that started as small shops and became very powerful companies, such as Samsung and Hyundai (Long Le et al., 2016). The Chaebol were the ones who controlled the industrialization process due to the close relationship they had with the government (Onaha & Pfoh, 2020). Likewise, they were an important part of the phenomenon known as the "Miracle of the Han River" that had its peak from 1960 to 1990, about seven years before the Asian financial crisis. During this period there was an

annual growth of 8.5%, which positioned Korea as the country with the fastest economic growth in modern times (Piccolotto, 2020). For this reason, it is important to understand how these conglomerates became so successful, and the effects they had on the country. The objective of this research is to offer a detailed description of the literature about the impact that public policies had on the development of the Chaebol conglomerates and the positive and negative effects of this model in Korea. This objective can be expressed through the following research question:

What has been the impact of public policies on the Chaebol business groups that played an important role in the Korean economy during the Miracle of the Han River period (1953 - 1966)?

This work will be divided into several sections which are detailed as follows: section 1 includes an introduction to a better understanding of this phenomenon in its context, section 2 includes the methodology and results, and section 3 includes the discussion and the conclusions.

Methodology

To answer the research question, a qualitative method of inquiry was employed through a critical review of the literature. This process consisted of accumulating numerous texts to synthesize them and then form new texts that gather the essential aspects that belong to the object of analysis (Osse Bustingorry et al., 2006). The method chosen was Comprehensive Literature Review (CLR), which establishes that information can be obtained from any aspect of research work. It can be collected from the abstract, theoretical framework, methodology, results, or discussion. This method allows more flexibility in terms of content that is included in the data collection (Onwuegbuzie & Frels, 2016). This method proposes three phases for research (Figure 1).

Table 1

Phases of Comprehensive Literature Review

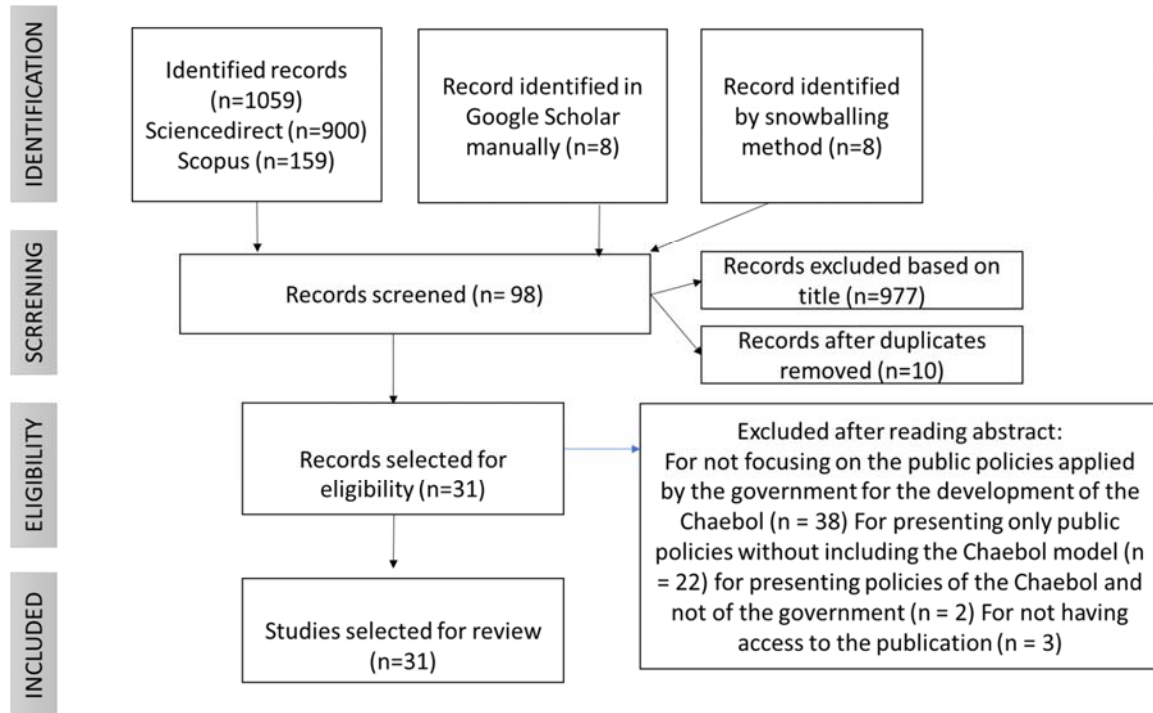
Exploration Phase
Step 1. Exploring beliefs and topics
Step 2. Initiating the search
Step 3. Storing and organizing information
Step 4. Selecting / deselecting information
Step 5. Expanding the search
Interpretation phase
Step 6. Analyzing and Synthesizing Information
Communication phase
Step 7: Presenting the CLR Report

Based on (Onwuegbuzie & Frels, 2016)

The guidelines that were followed for the exploration phase (steps 2, 3, and 4) were based on the PRISMA flow diagram (figure 2). Although a PRISMA systematic review of the literature was not being carried out, this method was used partially. This was done only in the data collection part using the PRISMA flow diagram to streamline and organize the search.

Figure 1

Flow diagram PRISMA



Source: Based on (Urrutia & Bonfill, 2010)

Initial Search

The first search was carried out on March 2022 through a combination of the terms 'Chaebol' and 'policies'. The search included databases such as *Dialnet*, *ScienceDirect*, and *Scopus*. Later, it was expanded using a combination of Boolean operators AND/OR among the terms 'Miracle on the Han River', 'Conglomerates', 'Chaebol', and 'South Korean government'. Several results were brought up, some of which were repetitive and others were not useful for the review. The results found in *Dialnet* were scarce and mostly repeated. Likewise, none of the 15 total results contributed to the investigation, so this search engine was removed from the analysis.

Organizing information

The search to organize the information was carried out again in April 2022 through *Scopus* and *ScienceDirect*. The results were reduced to publications from 1980 to the present. This period was used because, in the initial search, it was found that most of the research about this model began to be published in 1980. Regarding the outdated citations due to time, the author justifies this timeline due to the nature of the research question. As mentioned by Arias (2014) “el tiempo de obsolescencia o desactualización de las referencias citadas es relativo, debido a que depende de varios factores, fundamentalmente de la disciplina o área del conocimiento, así como del tema objeto de estudio” [the time of obsolescence of the cited references is relative because it depends fundamentally on the discipline or area of knowledge, as well as on the subject under study] (p. 31). Having this in mind, the search was carried out following the aforementioned guidelines.

The terms used in *Scopus* and *ScienceDirect* were as follows:

-Chaebol

- Chaebol and policies
- Chaebol and Miracle on Han River
- Chaebol and government
- Conglomerates and Korea
- Conglomerate and policy and Korea

The best results were obtained with the following combinations:

- Chaebol AND policy (*Scopus and Science Direct*)
- Conglomerates AND policy AND Korea (Only in *Scopus*)

Specifically, a total of 159 results were collected in *Scopus* and 900 in *ScienceDirect*. Before proceeding to the selection of articles, the inclusion and exclusion criteria were defined:

Tabla 2
Inclusion and exclusion criteria

Inclusion criteria	Exclusion criteria
<ul style="list-style-type: none"> ● Research that includes analysis of public policies applied to the Chaebol. ● Research that shows the impact of the Chaebol on South Korea. ● Research that has been published between 1980 and 2022. ● Publications in English and Spanish. ● Research in form of articles, case studies, analyses, books, and administrative or manual works. 	<ul style="list-style-type: none"> ● Research exclusively about Chaebol that does not include the public policies applied by the government for the growth of the conglomerates. ● Research exclusively about Chaebol that does not include its effects on South Korea. ● Research exclusively about policies adopted by the Korean government that does not include the Chaebol model. ● Research about Chaebol policies that does not include public policies adopted by the government. ● Close access publications

According to the previous criteria, and only by reading the title, 81 published works were considered adequate (after removing six duplicates between the two databases and four in the Scopus search engine). After reading the summary, 67 works were discarded for the following reasons: mainly for not focusing on the public policies applied by the government for the development of the Chaebol (n = 40), for presenting only public policies without including the Chaebol model (n = 22), for presenting policies of the Chaebol and not of the government (n = 2), and for not having access to the publications (n = 3).

Expanding the search

Finally, after having selected 15 publications from the previous search, Google Scholar was used with the different combinations of search engines already mentioned to check if any publication had been left out. This search revealed eight additional publications that the author decided to include as they contributed to the research. Thus, 23 publications were added, including articles, books, and analyses. Each publication was read and the snowballing technique was applied. The latter consists of using the list of references of a publication to identify additional material that may contribute to the investigation and has not appeared in previous works (Wohlin, 2014). Finally, eight articles were collected from snowballing, which added to the previous works gives a total of 31 publications.

Results

The reading of the 31 publications brought up different policies which had an impact on the development of the Chaebol. Korea's economic policy is structured around five actors: the government, the Chaebol, the unions, the citizens, and foreign influence. Therefore, the different policies that were carried out focused mainly on making the path easier for large companies. The government made its decisions based on the needs of the Chaebol by providing them with preferential allocations of foreign aid, loans, grants, financing, preferential disposition of properties, business licenses, contracts for infrastructure development, biweekly plans, and control of the system. All of this caused entrepreneurs to build a great business empire and catapult themselves into international markets (K. S. Kim, 1991; K. S. Lee, 2009; Long Le et al., 2016; S. Yoo & Lee, 1987).

It may be said that in some way, the South Korean government used the Chaebol for the growth of the economy through all the stimuli they received as a result of the policies adopted by the different governments. This is why it is considered that the Chaebol were made and did not arise by themselves, since the State built these groups, causing a dependency on both parties (MichaelCarney, 2008; Sup Chang, 1988). To understand the different policies that were applied during this process, it is necessary to know that these are part of the "Five-Year Economic Plan" with which Korea deployed all its resources necessary to develop its industry and open up to international markets. During this process, the government focused on the development of the petrochemical industry, shipbuilding, steel, automobiles, and household appliances. This was possible due to the collaboration between the Chaebol and the government because the latter provided loans and contracts to the Chaebol to build bridges, hospitals, and roads causing companies like Hyundai and Samsung to become powerful Chaebol companies. The economic planning board (EPB) under the Park Chung Hee government (1963 to 1979) designed these development plans with the support of both South Korean and foreign economists who focused on carrying out three important goals. The first was to move Korea from agriculture to industry, the second was to move the country from mercantilist activities to industrial manufacturing, and the last one was to move the country from production to export. In the First Five-Year Plan (1966) the objective of laying the foundations for industrialization was developed. The Second Plan (1967-71) focused on promoting exports and modernizing the industrial structure. The Third Plan (1972-76) focused on achieving a balance between heavy and chemical industries and between rural and urban areas. The Fourth Plan (1977-81) focused on promoting social development through education, health, and medicine. The Fifth Plan (1982-86) focused on economic liberalization and reduction of tariff rates to attract foreign participation (Lajčić, 2016; S. H. Lee & Kim, 1999)

According to the authors of the selected publications, the policies that had the greatest impact on the development of the Chaebol are those detailed in Table 3.

Table 3

Main policies in the development of the Chaebol model in South Korea.

Políticas	Efectos/Impacto en el desarrollo Chaebol
HCI policy	The ten largest Chaebol companies triple their subsidiaries. Hyundai went from having 9 subsidiaries in 1974 to 31 in 1978, Samsung went from 24 to 33 subsidiaries, Daewoo from 10 to 35 subsidiaries, Lucky from 17 to 43 subsidiaries, and Hyosong from 8 to 24 subsidiaries.
Financing policy	The state gave the Chaebol companies the necessary financing to build their factories. Construction of Wulsan Fertilizer Company and Ssangyong Cement Company.
Export promotion policy	GTC licenses were granted to the Chaebol companies causing Samsung and Lucky-Gold Star (LG) to become known worldwide due to booming exports.
Segyehwa policy (economic liberalization)	The Chaebol companies diversified and expanded their operations into automobile manufacturing and export. Samsung entered the automobile market as the fifth largest automaker in Korea. Hanbo, on the other hand, entered the steel market.

Post-crisis reform policy

The Chaebol were reduced in number due to heavy reforms, but those that remained had increased in size.

Heavy-Chemical Industry Drive (HCI) Policy

The HCI policy was part of the third five-year plan (1972-76) that produced a symbiosis between the State and private companies, which resulted in the emergence of the Chaebol (Grinberg, 2014; E. M. Kim, 2017; J. H. Yoo & Moon, 1999). This policy focused on strengthening heavy industries (chemicals, steel, non-ferrous metals, electronics, chemical products, and construction) through the State's alliance with some Chaebol. These conglomerates were provided with a series of incentives such as loans and protection measures that benefited them. The government decided to work with these conglomerates because they could provide financing to the industries in terms of technology and capital (E. M. Kim, 2017; S. H. Lee & Kim, 1999; J. H. Yoo & Moon, 1999).

Among the internal factors that contributed to the application of this policy was the decrease in Korea's comparative advantage in light industries and its strong dependence on imports in terms of machinery equipment and raw materials. Likewise, regarding external factors, the Nixon Doctrine forced Korea to reassess the development of the defense industry, for which the government decided to give special attention to the heavy and chemical industry (J. H. Yoo & Moon, 1999).

This policy was implemented through subsidiary credits, selective protection, and direct participation by the government (Leipziger & Petrir, 1993). Regarding the naval industry, the government began with the construction of the Hyundai Ulsan, Daewoo Okpo, and Samsung Jukdo Shipyard shipyards, which together produced 3.5 million tons. Likewise, one of the government's objectives was the development of the machinery industry to achieve the production of high-quality goods that are recognized in the international market (C. Kim, 2006). As a result of the HCI policy, the ten most powerful Chaebol companies had an accelerated growth, tripling their subsidiaries with their new acquisitions. They were able to take advantage of the generous government support that favored them especially during the HCI so that they were able to accumulate capital and expand their business empires by establishing more industrial bases in the heavy and chemical sector (Kuk, 1988; Lim, 2013; Yoon Je Cho & Joon-Kyung Kim, 1995).

Those Chaebol conglomerates who were selected for the HCI seemed to have grown faster than others who did not participate in this plan. It was not unusual to see how several conglomerates tripled their subsidiaries due to new acquisitions in the chemical and heavy sectors. Hyundai went from having 9 subsidiaries in 1974 to 31 in 1978, Samsung went from 24 to 33 subsidiaries, Daewoo from 10 to 35 subsidiaries, Lucky from 17 to 43 subsidiaries, and Hyosong from 8 to 24 subsidiaries. This caused the 10 largest Chaebol to go from 5.1% to 10.9% of GDP during this period of chemical and heavy industry development. Although most of the large successful Chaebol conglomerates received strong support from the State, it is important to emphasize that their success is also due to the ability and tenacity of their entrepreneurs (E. M. Kim, 1987; S. H. Lee & Kim, 1999; Valencia Lomeli, 2015; Yoon Je Cho & Joon-Kyung Kim, 1995).

Financing policy (includes credits, loans, and aid funds)

The government intensified this policy throughout the economic development plan to provide capital to accomplish different objectives. Korea received aid funds from the Foreign Operations Administration (FOA), The United Nations (UN), and the United Nations Korea Reconstruction Agency (UNKRA). Korea received from the US and the UN 2963 billion. In 1953, the Korean Textile Industry Association decided that it would set up the UNKRA relief fund for the textile industry. The government allocated US\$630,000 for the reconstruction of Daehan Yanghwae, Samchuk Cement, and Hankuk Glass which seized this opportunity and managed to become successful conglomerates after using the relief funds. These loans, credits from UN loans, aid funds, and tungsten export earnings were fundamental factors influencing the growth of the Chaebol (Sang-young, 2005).

In 1961, the state nationalized the national banks, putting credit under state control. Therefore, the Chaebols conglomerates and other private companies had no choice but to rely on the state for capital raised through bank loans (S. H. Lee & Kim, 1999). During the HCI in 1970, the government realized that the progress of construction

of industrial plants was slow because the banks were not supportive enough, so it asked them for more cooperation in terms of loans. Likewise, when exporters reported that exports were not going at the desired rate, the government again pressured bankers to grant more credit programs to exporters. At this point, the government controlled the financial system to aid selected industries, which helped to increase the share of Chaebol-centric businesses. Policymakers established the long-term economic development plan along with credit policies. The measures were fiscal incentives, credit supports, and foreign and domestic loan allocations that were essential to support industrial growth. The government became the owner of the banking institutions, controlling interest rates and the issuance of loans according to the needs of the companies involved in the development plan, most of which belonged to the Chaebol. The government used loans to boost industrialization, exports, and growth in general. These conglomerates and generous financial support from the government allowed Korea to move into the heavy and chemical industry against the skepticism of businesspeople, policymakers, and academics (Kalinowski & Cho, 2009; S. H. Lee & Kim, 1999; Yoon Je Cho & Joon-Kyung-Kim, 1995).

On the other hand, the State also granted the Chaebol conglomerates the necessary financing to expand their factories. An example of this is the case of Wulsan Fertilizer Company. Samsung's Lee Byeong Cheol and other participants built this company with 75% of its assets from US aid funds and 25% from foreign direct investment. Another case is that of Ssangyong Cement, which was built by Hong Jae Seon, financed with \$6.5 million from foreign loans from Germany's Klockner-Humboldt Deutz Co. and 300 million won from domestic loans. Due to the foreign and domestic loans that the government found abroad, the Chaebol were able to build more factories. According to reports made by the National Assembly at its 84th meeting, 60% of the total loans made corresponded to 600 large Korean companies during the emergency decree. Likewise, the Decree established an industrial rationalization fund for strategic industries and generators of foreign capital. The government invested 73% of the total fund in these types of industries which were heavily dominated by the Chaebol. This situation made them the largest recipients of this type of loan and led to a friendlier relationship between the government and the Chaebol (E. M. Kim, 1987).

Export promotion policy

The export promotion began in 1961 with the strategy of the military government but intensified in Korea's second development plan. It happened when the government focused on growing its industrial capacity by developing the manufacturing sector, protecting emerging industries, and boosting exports. This was achieved by the strengthening of credit programs, price stabilization, increased foreign investment, manipulation of interest rates, and national and foreign currencies. Thus, Korea promoted industrialization through the export promotion policy as one of its main strategies for economic growth (E. M. Kim, 2017; Lajčiak, 2016; S. H. Lee & Kim, 1999; MichaelCarney, 2008; Yoon Je Cho & Joon-Kyung Kim, 1995).

During the promotion of exports, three points were characteristic of this process. Firstly, it is necessary to point out that the plan for boosting exports was not used for control, secondly, the export incentives were given in the form of rewards and finally, Korea adopted an approach with measures, decisions, and integrated institutions (Lim, 2012).

To meet this objective, commercial banks approved loans to those who had letters of credit for exports. These loans were intended to support new export opportunities to diversify in the international market. During the HCI, the government expanded the financing for investment in the export industry which was a significant chance for Chaebol since they participated in this industrial development project (Yoon Je Cho & Joon-Kyung Kim, 1995).

An example of the role of the Chaebol during this period is the General Trading Company (GTC). The GTC played a fundamental role in promoting exports, especially in the more powerful Chaebol. Because these conglomerates were more powerful than other companies, they received additional support through licenses from GTC. Due to this, the Chaebol practically dominated exports, which caused differences between South Korean and Japanese exports. The former exports were under the dominance of conglomerates, and in the latter, they were under the dominance of small and medium-sized companies (Amsden, 1989).

An example of the success of the export policy is Samsung and Lucky-Gold Star (LG), which knew how to take advantage of the export boom in the mid-1980s to sell electrical and electronic devices that became known throughout the world. This stage was crucial for these companies since more than 21 percent of the total assets of Samsung and more than 30 percent of those of Lucky-Gold Star belonged to electronics (S. H. Lee & Kim, 1999).

Segyehwa policy

The Segyehwa policy, which means globalization, was promoted by the government of Kim Young Sam and had as its main objective the liberalization of trade, international finance, and foreign investment. This liberalization in the 1990s allowed the Chaebol to acquire foreign loans and improve their competitiveness in terms of exports, also achieving transnationalization. The accelerated liberalization of Korea's international financial policy during the 1990s allowed the Chaebol to acquire foreign loans directly from international sources (Young-Chan Kim, Doo-Jin Kim, 2009).

It is important to emphasize that this globalization strategy looked after the interests of the international expansion of the Chaebol. This policy facilitated their access to global financial markets and the credits that they needed to finance themselves. As a result of this policy, the Chaebol conglomerates diversified and expanded their operations into automobile manufacturing and the steel industry. Samsung is an example of what the Chaebols conglomerates achieved. It entered the car market as the fifth largest car manufacturer in Korea. Hanbo, on the other hand, entered the steel market. The Chaebols concentrated their investments in risky countries, so there weren't too many multinationals. Daewoo, for example, invested heavily in Eastern Europe, as well as countries like Uzbekistan, India, and Vietnam. Hyundai invested in Southeast Asia, India, and Africa. This liberalization of the financial market until 1997 meant a partial withdrawal of state control over capital inflows, which benefited the Chaebols. But this ended up being a problem for the country since this liberalization was not done under strict supervision measures. It is imperative to mention that long-term foreign investment and investors' equity participation were met with certain restrictions because the government wanted to protect the Chaebol from foreign competition (Kalinowski & Cho, 2009).

Post-crisis reform policy

After the crisis of 1997, the South Korean government had to implement a reform policy to establish financial regulations and corporate restructuring for the Chaebol. They made the changes as follows: improve management transparency, improve their corporate governance framework, improve their capital structure, eliminate cross-debt guarantees, and focus more on the Core Business. Due to this, the Chaebol were able to find a way to be more competitive under these new parameters established by the government while trying to restore market confidence through transparency and supervision of companies (Choi, 2007; Froese, 2020).

The five largest Chaebol (Samsung, Hyundai, LG, Daewoo, and SK) signed an agreement with the banks for debt restructuring. Likewise, they agreed to eliminate subsidiaries and affiliates that were not essential to focus on core competencies. The Big Deal program involving these five Chaebol conglomerates focused on exchanging business units in the fields of oil refineries, power generators, petrochemicals, motors, and automobiles. The government thought that consolidation would increase efficiency. However, this led to the bankruptcy of Hyundai Electronics, which later acquired LG Semiconductor (Young-Chan Kim, Doo-Jin Kim, 2009). Despite this, it is essential to mention that while it is true that some Chaebol branches went bankrupt after these reforms, others continued to develop with constant growth (Min-hua, 2016).

During the post-crisis liberalization, Korea wanted to transform itself into a democratic market economy and leave behind the economy dominated by the Chaebol. For this, the government decided to sell the shares that it owned in national banks to foreign investors, which allowed it to relax the restrictions that prohibited conglomerates from owning more than 4% of the capital of a bank (Kalinowski & Cho, 2009). In 1999 the economic recovery began causing the Chaebol to reduce in number due to the strong reforms, but those that remained increased in size. They assumed an active role in exports which contributed to this recovery. The government once again realized that it needed the Chaebol to boost the economy. Foreign exchange reserves were obtained through these exports, and these massive companies were declared the saviors of the South Korean economy. In 2004, the public perception of Chaebol was positive due to this sense of nationalism resulting from the painful reforms. This support caused these companies to take advantage of this situation to protect their position, which was threatened because of the trade liberalization that attracted foreign competition (Kalinowski & Cho, 2009).

Effects of the Chaebol model on the Korean economy and society

Table 4 shows a summary of the positive and negative effects that the Chaebol conglomerates had on South Korea, both economically and socially.

Table 4

Positive and negative effects of the Chaebol model.

Positive Effects	Negative Effects
<ul style="list-style-type: none"> ● In 1985 Korea ranked 13th in the world for exports. ● The five largest Chaebol in 1984 (Hyundai, Samsung, Lucky-Goldstar-Sunkyung, and Daewoo) exceeded more than 50% of total exports causing their total sales to be more than half of the country's GDP. ● Most South Koreans ended up benefiting from employment and services. ● In 2008, the sales revenue of the main Chaebol represented 37% of Korea's GDP, 45% in 2009, and 58% in 2015, thus placing 17 Korean companies on the Fortune 500 list. ● Korea has become a leading manufacturer in the heavy industry and high-tech sectors. 	<ul style="list-style-type: none"> ● Protest marches against the centralized power of the Chaebol. The four largest Chaebol (Hyundai, Samsung, Daewoo, and LG) handled nearly 60% of total exports, employed only 3% of the workforce, and accounted for one-third of Korea's total sales. ● There was a limitation on SMEs in the national and international markets. ● This symbiosis with the government has caused an environment of bribery between politicians, companies, and officials. ● The Chaebol were blamed as the main cause or one of the factors of the 1997 crisis. ● Banks were in financial trouble due to the bailout policies that were implemented to save the Chaebol.

Positive Effects of Chaebol on South Korea's economic development

Regarding the positive effects of the Chaebol conglomerates in Korea, several authors agree that powerful conglomerates such as Samsung, LG, and Hyundai drove Korea's economic and industrial growth, which had a massive impact on the economy due to the transfer of technology, employment, exports, and competitiveness (E. M. Kim, 2017; Shiy, 2020; Valencia Lomeli, 2015; S. Yoo & Lee, 1987). An impressive fact that shows the greatness of the Chaebol is the list of "The fortune International 500", in which 10 of the most all-powerful Chaebol appear. One of the conglomerates that stood out was Hyundai, the largest exporter of automobiles to Canada, which showed that proper economic planning was the basis for Korea's growth. In 1985, Korea ranked 13th in the world in terms of exports, so some scholars consider that the Chaebol were the true catalyst of the economic miracle in South Korea. Evidence of this is that the five largest Chaebol in 1984 (Hyundai, Samsung, Lucky-Goldstar-Sunkyung, and Daewoo) exceeded more than 50% of total exports causing their total sales to be more than half of the country's GDP (S. Yoo & Lee, 1987).

The conglomerates had a fundamental role in the South Korean industrialization process, which was carried out through industrial policy that included some projects, plans, and adaptations. The Chaebol were vital to its execution, as is the case of the HCI that caused some firms to become world-class organizations, as is the case of Hyundai (K. S. Kim, 1991; Leipziger & Petrir, 1993).

Foreign direct investment (FDI) was first attributed to the strong globalization drive of the Chaebols including Hyundai and Samsung. Second, government support for FDI influenced the Chaebol's actions, allowing them to open up to new technologies and innovate. Third, the Chaebols were motivated by competition which made them accelerate their innovation efforts in 1980, making them the leader of Korean R&D investments in the 1990s, occupying about 75% of the total R&D in Korea (Fitzgerald & Kim, 2004; Young-Chan Kim, Doo-Jin Kim, 2009)

Likewise, with the growth of the Chaebol, most Koreans benefited from the employment and services provided by the conglomerates. An example of this is the health care system that received the help of the conglomerates for its development. Hyundai Chairman Chung Ju Yung donated his shares through the foundation he established to build

hospitals in agricultural or fishing regions that had no health care service. As a result, the Asan Foundation was established in 1977, which built first-class hospitals. Daewoo's chairman established the Culture and Welfare Foundation in 1978, which built hospitals on Jindo, Wando, and Muju islands. This government-Chaebol bond was the backbone of the Miracle on the Han River that made Korea among the developed nations. It is essential to recognize that although the government helped the Chaebol, they knew how to take advantage of all these opportunities by expanding their businesses and creating new product lines (C. Kim, 2006; Sup Chang, 1988).

After the financial crisis, conglomerates were of great importance to the growth of the South Korean economy. In 2008, the sales revenue of the main Chaebol represented 37% of Korea's GDP, 45% in 2009, and 58% in 2015, thus placing 17 Korean companies on the Fortune 500 list. Due to the success of Chaebol in the domestic and international markets, Korea has become a leading manufacturer in both the heavy industry and high-tech sectors. This international recognition shows that the Chaebol will continue to play a fundamental role in the South Korean economy, which in recent times has been based mainly on innovation. Finally, the free trade agreements (FTA) that Korea has been negotiating will facilitate the expansion of the Chaebol abroad, which will benefit the country due to the increase in its exports (Min-Hua, 2016).

Negative Effects of Chaebol on South Korea

On the other hand, this modernization hides several problems resulting from the relationship between these companies and the government, which caused a concentration of power, corruption, exclusion of the public in decision-making, and lack of ethics, causing discomfort among the population. Because of this, students and workers took to the streets seeking equal pay and protesting against the Chaebol's control of the market in 1987. (K.S. Lee, 2009; Sup Chang, 1988). This concentration of power meant limited participation of SMEs in the market, so the government proposed to support these small businesses more through loans, exclusivity, and technological support, among others (E. M. Kim, 2017).

More directly, the Chaebol represented three problems for Korea. The first is that the Chaebol gained too much control of the market due to centralized power, which allowed them to influence policymaking in a way that favored them. The four largest Chaebol (Hyundai, Samsung, Daewoo, and LG) handled nearly 60% of total exports, employed only 3% of the workforce, and accounted for one-third of Korea's total sales. The Chaebol expanded due to the capital that was always allocated in their favor, so they grew without competition from small and medium-sized companies. The second problem is that this symbiosis with the government has caused an environment of bribery between politicians, companies, and officials. The political opposites accused the Chaebols of bribing officials and former presidents through the illegal distribution of political funds. Thus, the Chaebol could obtain subsidies and political favors from the government that increased their capital accumulation. Finally, these self-confident conglomerates aggressively expanded through debt financing in the firm belief that they were too powerful to fail. The government believed that this was a big mistake and tried to deregulate the economy and stop the acts of corruption that were taking place. However, the government couldn't control that situation, so this accumulation of debt had its consequences on the Asian financial crisis (J. K. Kim, 2002; Kuk, 1988; S. H. Lee & Kim, 1999; Lim, 2012; Young-Chan Kim, Doo- JinKim, 2009).

An example of this lack of ethics in the government-Chaebol relationship is the case of the owner of Taechang, who had close relations with Syngman Rhee and therefore offered help for his campaign. Because of this, this company received 5.5 million from the government reserves in the form of loans in 1953. The same was with the Jung Jaeho Samho Group company, which received a particular government loan of 470 million, which allowed it to become the Chaebol largest textile company in the nation (Sang-young, 2005).

Because of this, most politicians, academics, and activists blamed the conglomerates as the main cause or as one of the factors that increased the severity of the 1997 crisis. It is necessary to mention that over time the Chaebol reached a debt-to-equity ratio of 519%. An example is the KIA company that was unable to complete its payments which caused credit crunch problems. The lack of debt payments and the monetary crisis at that moment made the government have to request rescue loans from the IMF. Another example is Hanbo Iron and Steel, the second-largest steel company in Korea. This company was incompetent to cover its debts and went bankrupt, followed by other mid-sized Chaebols such as Jinro and Haitai. This crisis caused society to rethink how it was organized and to question the massive concentration of wealth in the hands of a few. Institutions began to monitor the Chaebol

for illicit activities, but they deposited their holdings in nonprofit foundations, which prevented them from meeting their tax obligations (Campbell & Keys, 2002; Choi, 2007; Froese, 2020; Lim, 2012; Long Le et al., 2016).

The Chaebols hurt the economy when they began investing without caring about profitability and carrying excessive inventories that prevented them from recouping their investments. The problem was that the credit risk was considered a country risk and not a privacy risk, which caused several issues for the country since the government was the one that guaranteed the external debts and in some way was obliged to guarantee the stability of the Chaebol. The government also had to rescue them in case of crisis since if they collapsed, Chaebol would end up sinking the financial system. This type of uncontrolled Chaebol governance put the South Korean economy at-risk relative to other, more stable economies (Lim, 2013; Young-Chan Kim, Doo-Jin Kim, 2009).

The banks suffered various problems as the government decided to bail out the insolvent companies. The banks in the city became dependent on the financial support of the central bank (BOK), which is controlled by the government. Many of the companies rescued belonged to the long line of Chaebol conglomerates. The total loans of the 30 Chaebol in 1983 was 43.2 percent and increased to 48 percent in March 1984 (Kuk, 1988).

President Park Chung Hee in 1974 was the one who urged policymakers to propose new strategies to counteract the centralization and accumulation of wealth by the Chaebol and thus help small and medium-sized companies to be competitive and develop in a fairer market. When these business groups went further, the government moved quickly, so there was no national instability, and several adjustments were made. Among them, the abandonment of heavy industry was considered, which allowed the country to take advantage of exports and move toward trade liberalization. (C. Kim, 2006; Leipziger & Petrir, 1993).

Conclusion

As reflected in the results, this five-year plan was a type of macro policy which was divided into several policies. These were coordinated and depended on each other. One of the most mentioned policies by the different authors is that of the HCI, which caused the conglomerates to expand through the increase of their subsidiaries. This policy is strongly linked to the financing policy which allowed carrying out this strengthening of the heavy and chemical industry. Without an appropriate financing policy, it would not have been possible to provide credits to the Chaebol to build their factories and expand their industrial bases. Likewise, the export promotion policy was linked to that of the HCI and that of financing. The approval of loans for those who were exporting helped large companies to diversify and during the HCI there was a combination of policies in which financing was increased and licenses were given to invest in equipment in industrial sectors to produce high-quality goods that can be recognized in the international market (C. Kim, 2006; Yoon Je Cho & Joon-Kyung Kim, 1995). As for the *seguehwa* policy, this had a strong impact on export policy, since its main objective was trade liberalization, which allowed the Chaebol to improve their competitiveness and have greater access to the Eastern European market, India, Africa, and Southeast Asia. Likewise, during this period of liberalization, it was essential to have a financing policy that allowed the Chaebol to access certain credits they needed to finance their exports. Finally, although the post-crisis reform policy did not have such an active impact on the development of the Chaebol as those mentioned above, the Chaebol needed to have a financial and corporate restructuring to not have such a considerable accumulation of debt again. In this way Chaebol can be more competitive by showing transparency and constantly being under the supervision of the State.

As it can be observed, the policies that were applied during the period called the Miracle of the Han River were strongly interconnected since the success of one depended on the success of the others. While it is true that these policies played a crucial role in the development of the Chaebol, there were side effects due to careless handling of financing policies. There was insufficient control of the Chaebol's indebtedness levels, this lack of control caused them to reach a debt-equity ratio of 519%. The non-payment of these companies caused the government to have to request rescue loans from the IMF to cover all the debts that the corporate sector had. Likewise, there is a controversy regarding the power that Chaebol have over the national and international market. Although it is true that due to the Chaebol South Korea was ranked 13th in the world in terms of exports in the 1980s, it is important to mention that they handled 60% of exports. This meant lower participation of SMEs in the international market because they have the Chaebol as their main competition. On the other hand, there is talk of how the South Korean population benefits from the employment and services provided by the Chaebol. However, it is important to keep

in mind that these companies employ only 3% of the workforce, which does not have a considerable impact on terms of employment.

Despite the side effects of certain policies and the Chaebol model, it is imperative to point out the political will of the South Korean government. The government did its best to carry out its objectives, and the Chaebol were the ones who knew how to take advantage of the help they received. Although the Cold War constantly threatened peace in South Korea, the government fully focused on the country's development. Perhaps one of the biggest mistakes of the rulers was the lack of a contingency plan to control growth, the Chaebol came to have so much power that it was difficult to control them, which caused a strong economic crisis. For this reason, if a country decides to grow through investment in the private sector, the policies must be not only oriented towards its development but are also structured in such a way that there is a controlled growth of the private sector. This will prevent crises that seriously affect the economy. Likewise, the government must find for SMEs to be competitive against the Chaebol and have an active role in the economy. As mentioned by Klingler-Vidra & Pacheco Pardo (2019), the position that these conglomerates have in the South Korean economy is very important, so not only can we think about eliminating them but rather we should try to give more opportunities to small and medium-sized enterprises through cooperation between SMEs and Chaebol. Finally, the results of the public policies carried out and the role that the Chaebol had in the South Korean economy are reflected today. According to figures issued by the Observatory of Economic Complexity (OEC) (2020), South Korea ranked 10th in terms of gross domestic product (GDP), 5th in global exports, 9th in imports, 32nd in economics in terms of GDP per capita (current US\$) and finally 5th in the index of economic complexity ((OEC), 2020). Likewise, in 2020, trade represented 69% of South Korea's GDP, which shows the dependence of the Korean economy on exports, which are mainly produced by the Chaebol conglomerates (The World Bank, 2020). This shows that focusing fully on a clear objective, such as industrialization and the development of the business system, does give good results. Despite being a small country, South Korea knew how to set clear objectives to grow economically and become an exporter of manufacturing and technology.

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Appendix

Literature review through the use of worksheets in excel

"Miracle Growth" in the Twentieth Century—International Comparisons of East Asian Development	No	No policies
4: State-constructed business groups: the Korean chaebol	Si	
A final flowering of the developmental state: The IT policy experiment of the Korean Information Infrastructure, 1995–2005	Si	
A Geopolitical Economy of Heavy Industrialization and Second Tier City Growth in South Korea: Evidence from the 'Four Core Plants Plan'	Si	
A Growth Model of "Miracle" in Korea	No	No policies
A new methodology linking concentration dynamics to current and steady-state profits: Examining Korean industrial policy during take-off	No	No Chaebol
Access to public capital markets and the extension of trade credit: An empirical analysis of Korean public and private firms	No	No policies
Advocacy coalitions in regulating big business in South Korea: Change of chaebol's holding company policy	No	No policies
An estimation of the productive efficiency of chaebols of Korea and their reform	Si	
Bailout and conglomeration	Si	
Beyond the Chaebol? The Social Purpose of Entrepreneurship Promotion in South Korea	Si	
Business Groups in South Korea	No	No access
Business strategy, government and globalization: Policy and miscalculation in the Korean electronics industry	Si	
Causes for business failures: Understanding the 1997 Korean crisis	No	No policies
Chaebol and Industrial Policy in Korea	Si	
Chaebol reform in South Korea	No	No policies
Chaebol, investment opportunity set and corporate debt and dividend policies of Korean companies	No	No policies
Chaebol: The South Korean conglomerates	Si	
Chaebol-affiliated analysts: Conflicts of interest and market responses	No	No policies
Challenges of Korean technology-based ventures and governmental policies in the emergent-technology sector	No	No policies
Changes of firm size distribution: The case of Korea	No	No policies

Chapter 6: The Korean financial crisis and government policies: perception and response	Si	
Competition and Corporate Governance in Korea: Reforming and Restructuring the Chaebol	Si	
Control-ownership disparity and stock market Predictability: Evidence from Korean chaebols	No	No policies
Convergence and divergence: Policy making about the convergence of technology in Korea	No	No policies
Corporate governance and payout policy: Evidence from Korean business groups	No	No policies
Corporate governance in South Korea: The chaebol experience	No	No policies
Corporate governance, regulation and foreign equity ownership: Lessons from Korea	No	No policies
Corporate governance, regulatory changes, and corporate restructuring in Korea, 1993–2004	No	No Chaebol
Corporate sustainable management, dividend policy and chaebol	No	No policies
Credit ratings and corporate cash holdings: Evidence from Korea's corporate reform after the 1997 Asian financial crisis	No	No policies
Determinants of ownership structure: An empirical study of the Korean conglomerates	No	No policies
Diversification of Korean housebuilding firms: The pattern and motives between 1980 and 1995	No	No Chaebol
Do domestic or foreign institutional investors matter? The case of firm information asymmetry in Korea	No	No Chaebol
Does economic policy uncertainty affect trade credit and firm value in Korea? A comparison of chaebol vs. non-chaebol firms	No	No policies
Effects of foreign ownership on payout policy: Evidence from the Korean market	No	No Chaebol
Executive compensation, firm performance, and Chaebols in Korea: Evidence from new panel data	No	No policies
Family firms, chaebol affiliations, and corporate social responsibility	No	No policies
Financial constraints on investments and credit policy in Korea	No	No policies
Financial crisis and credit crunch in Korea: Evidence from firm-level data	No	No policies
Financialization and industrial policies in Japan and Korea: Evolving institutional complementarities and loss of state capabilities	No	No Chaebol
From developmental to network state: Government restructuring and ICT-led innovation in Korea	No	No policies

From fragmentations to integration: Development process of innovation cluster in Korea	No	No policies
Government, entrepreneurs and competition (Book Chapter)	Si	
Group control motive as a determinant of ownership structure in business conglomerates: Evidence from Korea's chaebols	No	No policies
Implementation of interorganizational cost management and its infrastructure: the case of a Korean 'Chaebol' firm	No	No policies
Industrial restructuring in Korea	No	No Chaebol
Institutions, Bailout Policies, and Bank Loan Contracting: Evidence from Korean Chaebols	No	No policies
Investment by Korean conglomerates before and after the crisis	No	No policies
Korean chaebols: Corporate values and strategies	No	No policies
Korean financial crisis during 1997-1998 Causes and challenges	Si	
Korean industrial policy: legacies of the past and directions for the future	Si	
Linking corporate governance to firm behavior and performance: The case of Korean chaebols viewed as a leveraged CMS FIRM	No	No policies
Long-term evolution of the firm value and behavior of business groups: Korean chaebols between weak premium, strong discount, and strong premium	No	No policies
Market response to bank relationships: Evidence from Korean bank reform	No	No Chaebol
Performance, capital structure and home country: An analysis of Asian corporations	No	No Chaebol
R&D investment and the government's R&D policies of electronics industries in Korea and Taiwan	No	No policies
South Korea's economic miracle and crisis: Explanations and regional consequences	No	No policies
Technological Knowledge Transfer within Chaebols after the 1997-98 Crisis	No	No policies
Technology policy for industrialization: An integrative framework and Korea's experience	No	No Chaebol
The changing dynamics of state-business relations and the politics of reform and capture in South Korea	No	No Chaebol
The costs (and benefits?) of diversified business groups: The case of Korean chaebols	No	No policies
The Chaebol and Industrial Policy in Korea	Si	No policies
The effect of financial liberalization on firms' investments in Korea	No	No policies

The effects of politically connected outside directors on firm performance: Evidence from Korean chaebol firms	No	No policies
The evolution of individual Asian firms	No	No access
The government, financial system, and large private enterprises in the economic development of South Korea	No	No policies
The government, the chaebol and financial institutions before the economic crisis	No	No policies
The growth of Korean companies and their contributions to the miracle of the han river	Si	
The impact of family ownership and capital structures on productivity performance of Korean manufacturing firms: Corporate governance and the “chaebol problem”	No	No policies
The Korean State and Social Policy: How South Korea Lifted Itself from Poverty and Dictatorship to Affluence and Democracy	No	access
The miracle to crisis and the mirage of the postcrisis reform in Korea: Assessment after ten years	No	No policies
The politics of Chaebol reform in Korea: Social cleavage and new financial rules	No	No policies
The politics of chaebol reform, 1980–1997	No	No policies
The restructuring of Daewoo	No	No policies
The role of financial development in economic growth: The experiences of Taiwan, Korea, and Japan	No	No policies
The structure and formation of business groups: Evidence from Korean chaebols	No	No policies
The value of official business group affiliation: Evidence from a change in Korean chaebol designation policy	No	No policies
Total factor productivity of Korean manufacturing industries: Comparison of competing models with firm-level data	No	No policies
Universities, Clusters, and Innovation Systems: The Case of Seoul, Korea	No	No Chaebol
What drives the export performance of small and medium-sized subcontracting firms? A study of Korean manufacturers	No	No Chaebol
What to Shed and What to Keep: Corporate Transformation in Korean Business Groups	No	No policies
The development of the Hyundai Production System: The historical evolution	Si	
A model of diversification and growth in open developing economies	Si	
Business groups and internationalization: Effective identification and future agenda	Si	

TITULOS	REVISADO A FONDO
A final flowering of the developmental state: The IT policy experiment of the Korean Information Infrastructure, 1995–2005	Revised
A Geopolitical Economy of Heavy Industrialization and Second Tier City Growth in South Korea: Evidence from the 'Four Core Plants Plan'	Revised
An estimation of the productive efficiency of chaebols of Korea and their reform	Revised
Beyond the Chaebol? The Social Purpose of Entrepreneurship Promotion in South Korea	Revised
Business strategy, government and globalization: Policy and miscalculation in the Korean electronics industry	Revised
Chaebol and Industrial Policy in Korea	Revised
Chaebol: The South Korean conglomerates	Revised
Competition and Corporate Governance in Korea: Reforming and Restructuring the Chaebol	Revised
Corporate governance in South Korea: The chaebol experience	Revised
Korean financial crisis during 1997-1998 Causes and challenges	Revised
The growth of Korean companies and their contributions to the miracle of the han river	Revised
4: State-constructed business groups: the Korean chaebol	Revised
Chapter 6: The Korean financial crisis and government policies: perception and response	Revised
Government, entrepreneurs and competition (Book Chapter)	Revised
Korean industrial policy: legacies of the past and directions for the future	Revised
Amsden, A. (1989) Asia's Next Giant: South Korea and Late Industrialization, New York: Oxford University Press	Revised

PUBLICACIONES ENCONTRADAS EN GOOGLE ACADEMICO	CONTENIDO	SE REVISO A FONDO
Learning from the "Miracle of Han River" TAO Shiyi✧, †		Revised
Management Style and Practice of Korean Chaebol	Close government relationship Positivo	Revised
The governmental role in the making of chaebol in the industrial development of south korea		Revised
Milan Lajčiak SOUTH KOREAN DEVELOPMENT MODEL		Revised
Korea's Evolving Business–Government Relationship Eun Mee Kim	HCI, FIVER YEARS PLAN	Revised

The Origins of Korean Chaebols and their Roots in the Korean War	LOANS FORM BANK Import substitution policy	Revised
The Korean miracle (1962-1980) revisited: myths and realities in strategy and development	Financing and Credit Policy	Revised
Estado y empresarios en Corea del Sur: entre la reciprocidad y la autonomía. Valencia Lomeli	Chaebol desarrollo	Revised

SNOWBALL		
From Despair to Hope Economic Policymaking in Korea 1945-1979	Descargado	Revised
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