
Will the *Chaebol* Reform Process Move Forward under the Moon Jae-in Administration? —Future Directions and Challenges—

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Summary

1. Collusive links between politics and business were a major focus during South Korea's 2017 presidential election. In an address to the national after his election victory, President Moon Jae-in promised to carry out reforms targeting the *chaebol* (industrial conglomerates) and eliminate collusion between politicians and business people. The purpose of this article is to clarify how the *chaebol* reform process is likely to proceed, what the focal points will be, and the issues that could arise.
2. The economic policy of the Moon Jae-in administration is based on the four pillars of income-driven growth, the establishment of an economy that will generate jobs, fair competition (including *chaebol* reform), and growth through innovation. Immediately after taking power, President Moon Jae-in announced policies targeted toward income-driven growth. Efforts to achieve growth through innovation began in the fall of 2017. The *chaebol* reform process has not yet begun.
3. *Chaebol* reform is necessary for several reasons. First, the concentration of economic power in the hands of the *chaebol* is producing harmful effects, including growing economic disparity, and a lack of jobs for young workers. Second, there have been numerous fraud cases relating to the inheritance of management rights by members of the *chaebol* families. Third, the *chaebol* have repeatedly colluded with politicians.
4. One reason for repeated cases of business-political collusion is the enormous amount of authority wielded by the South Korean president. Another was the fact that project approval and financing (from banks under government control) was limited to a small number of *chaebol* under South Korea's development-focused regimes, leading to a situation where companies were able to build close links to those with political power. As the *chaebol* that received government support gained more economic power, they began to forge close links to those with political power, with the aim of obtaining preferential treatment.
5. Rapid economic growth resulted in to further concentration of economic power in the hands of the *chaebol*, leading to increasing economic disparity. From the mid-1980s onwards, the government began to use the Monopoly Regulation and Fair Trade Act (MRFTA) to curb this concentration of economic power. The core components of the MRFTA include a ban on direct cross-shareholdings among companies in the same groups, and limits on the total amount of equity investment and reciprocal debt guarantees. In this period, the regulations imposed on the *chaebol* were primarily intended to curb the amount of economic power held by these conglomerates.
6. Comprehensive *chaebol* reform measures were first implemented under the Kim Dae-jung administration following the currency crisis. Since the currency crisis was precipitated in part by governance failures, the government attempted to enhance management transparency by requiring the *chaebol* to have external directors, and prepare consolidated financial statements, as well as by attaching legal liabilities to the position of *chaebol* chairman. However, the government did not take decisive action to curb the control exercised over the *chaebol* by the founding families.
7. Kim Sang-jo, who was appointed chairman of the Fair Trade Commission by the Moon Jae-in administration, initially hoped that the *chaebol* would carry out voluntary reforms. While there was some movement in this direction, such as the establishment of a holding company by Lotte, the pace of the *chaebol* reform process has remained generally slow. This is expected to result in the start of government-initiated reforms.
8. It is highly likely that the reforms will focus on the improvement of governance in the short term, and on more rigorous separation of financial and industrial capital and the tightening of requirements for holding companies in the medium term. It is vital that the reforms are carried out in a gradual and predictable fashion, especially given the prospect of an increased burden on businesses due to the Moon Jae-in administration's policy focus on income-driven growth.

During his inaugural address on May 10, 2017, President Moon Jae-in pledged to “take care of the employment issue first.” He also said he would “take the initiative in reforming conglomerates” and that the phrase “business-political collusion” would completely disappear. The president’s strong commitment to *chaebol* reform is based on his perception that the concentration of economic power in the hands of the *chaebol* has created a hotbed of corruption, and that the reform process is essential to democratization. This strong desire for reform was reflected in the appointment of Hansung University’s Professor Kim Sang-jo, known as the “*chaebol* sniper,” to head the Korea Fair Trade Commission.

The economic policy of the Moon Jae-in administration consists of the four pillars of income-driven growth, the establishment of an economy that creates jobs, fair competition, and growth through innovation. The *chaebol* reform process is basically positioned in the fair competition category. Policies relating to the achievement of income-driven growth have been given priority in initiatives carried out so far, while efforts to drive growth through innovation began in the fall of 2017.

Specific steps toward *chaebol* reform have not yet begun. During a meeting with *chaebol* representatives at the end of June 2017, Kim Sang-jo stated that the *chaebol* reforms would not be imposed unilaterally by the government, and that he wanted to approach the process collaboratively with the *chaebol*. He also urged the *chaebol* to initiate their own reform measures. On the other hand, Kim Sang-jo also declared that if the *chaebol* failed to reform themselves, the government would take the necessary actions itself. During a second informal meeting in early November, Kim stated that progress on reforms was not meeting public expectations, and told the *chaebol* to move forward with a sense of urgency. In December, the Fair Trade Commission began to scrutinize the management of non-profit foundations to ascertain whether they are being used to strengthen the dominance of the *chaebol* groups and help the *chaebol* families to avoid tax.

This article was written to consider how the

chaebol reform process will be approached under the Moon Jae-in administration. In Part 1, we will examine the characteristics of economic policy under the Moon Jae-in administration, and the positioning of *chaebol* reform within that policy. In Part 2, we will consider why *chaebol* reform is necessary. In Part 3, we will examine how the relationship between the *chaebol* and the government has changed in step with economic development and review *chaebol* reform measures implemented in the wake of the currency crisis. In Part 4, we will consider how *chaebol* reform might be approached going forward and what problems exist.

1. The Economic Policy of the Moon Jae-in Administration

In this section we first review economic the policy shifts that have occurred since the establishment of the Moon Jae-in administration. We will then clarify the characteristics of these policy changes and the positioning of *chaebol* reforms in the context of those changes.

(1) The Positioning of *Chaebol* Reforms

During the 2017 South Korean presidential election, allegations that Choi Soon-sil had interfered in government administration triggered a process that culminated in the unprecedented impeachment of an incumbent president. In addition, the de facto head of the Samsung Group, Lee Jae-yong, was arrested on charges related to interference in government administration. Events such as these focused intense attention on collusion between politicians and business, and the eradication of these relationships, together with the reform of the *chaebol*, became election issues.

President Moon Jae-in, whose background includes participation in the democratization movement in the 1980s and work as human rights law-

yer, is also a member of the Democratic Party. Mr. Moon basically believes that *chaebol* reform is absolutely necessary in order to make progress towards democratization because the concentration of economic power in the hands of the *chaebol* has created a hotbed of corruption. This view was reflected in pledges made by Mr. Moon during the presidential election campaign.

Moon Jae-in made 10 major pledges during the presidential election campaign. His first pledge was to make South Korea a nation that would take responsibility for employment. The second was to make the people the masters of South Korea. His third promise was to turn South Korea into a nation of fairness and justice. Specifically, he promised to expand the rights of minority shareholders, tighten requirements for holding companies, and separate financial and industrial capital, with the aim of eradicating illegal business succession and “emperor-style” management practices in the *chaebol*, and preventing them from concentrating economic power (Table 1).

Following his election victory, Mr. Moon promised to make job creation his first priority in his

inaugural speech on May 10. He also promised to lead the *chaebol* reform process from the front, and to eliminate the phrase “business-political collusion” from the language during his administration.

President Moon’s strong commitment to *chaebol* reform was apparent from his nomination of Hansung University Professor Kim Sang-jo, who is known as the “*chaebol* sniper”, to the position of chairman of the Korea Fair Trade Commission⁽¹⁾. Kim is an activist scholar who has campaigned to expand the rights of minority shareholders in South Korea (known as small shareholders in South Korea). He was involved in the activities of People’s Solidarity for Participatory Democracy and later worked with Solidarity for Economic Reform⁽²⁾ to achieve economic democratization, while also monitoring the behavior of the *chaebol*. Kim Sang-jo, and his fellow activist, Professor Jang Ha-sung of Korea University, who was appointed chief of staff for policy in the Executive Office of the President, are likely to play a central role in the *Chaebol* reform process.

At a press conference held on May 18 following his selection as Chair of the Korea Fair Trade Commission, Kim Sang-jo said that *chaebol* reform would be the first step towards economic democratization, and that the real essence of economic democratization was to improve the lives of subcontractors, SME operators, informal workers, and self-employed micro-business owners. He also said that *chaebol* reform had two aims: to prevent the concentration of economic power, and to improve governance structures. Kim also revealed that the reforms would focus on the big four *chaebol*, because economic power had tended to gravitate toward these groups in recent years, and that reform measures would be based on detailed planning and carried out in a consistent and predictable manner. Another comment made by Kim during this press conference was that the elimination of circular shareholdings would not necessarily be one of his top priorities.

For some time there were no concrete moves relating to *chaebol* reform, in part because Kim Sang-jo’s appointment was delayed due to objections raised by opposition parties, including the

Table 1 *Chaebol* Reforms Promised During the Election Campaign

| |
|---|
| <p>◇Reforms targeting illegal actions in relation to management succession and “emperor-style” management by the <i>chaebol</i></p> <ul style="list-style-type: none"> • Measures to end the use of affiliated foundations, treasury stock, circular investment, etc., to strengthen control by major shareholder families • Introduction of class action lawsuits, promotion of cumulative voting, electronic voting, etc. • Severe punishment of economic crimes, limitation of pardon powers, etc. |
| <p>◇Prevention of concentration of power in the hands of the <i>chaebol</i></p> <ul style="list-style-type: none"> • Reinforcement of requirements for and restrictions on holding companies, tightening of mandatory subsidiary equity ownership ratio • Closer monitoring of improper transactions • Establishment of a special law designating livelihood areas for SMEs • Separation of finance and manufacturing (independence of second financial sector from the <i>chaebol</i>) • Limitation of voting rights of companies affiliated to financial institutions in other affiliated companies, creation of comprehensive financial supervisory system to ensure that equity investment among affiliated companies is reflected in capital adequacy regulations |

Source: Compiled from National Election Commission, *10 Major Promises by Candidates* (in Korean)

Liberty Korea Party⁽³⁾.

President Moon has given first priority to job creation initiatives. His first pledge during the election campaign was to make South Korea a nation that would take responsibility for employment, and he promised to create around 810,000 jobs, mostly in the public sector. As a step toward the achievement of this goal, he established the Presidential Committee on Jobs (일자리위원회) on May 16. This was followed on June 1 by the announcement of a “100-day plan for jobs (*il-jali*)”⁽⁴⁾, which set a 100-day timeline for the formulation of a roadmap for related measures, and a review of existing administrative systems in such areas as education, labor and welfare, as well as fiscal and taxation systems, with the aim of redesigning these systems to make them compatible with job creation.

A supplementary budget bill for 11 trillion won (including over 4 trillion for job creation) was drafted and submitted to the National Assembly on June 7. (The initial budget for fiscal 2017 was approximately 400 trillion won.) Deliberations bogged down because of opposition anger about the proposed use of taxes to fund an increase in the number of civil servants. However, the government and opposition (except for the Liberty Korea Party) reached agreement on a proposal that the number of new jobs would be reduced from 4,500 to 2,575, that the funding for those jobs would be deleted from the budget bill, and that the balance covered from reserve funds. The supplementary budget was passed on July 22.

The government moved relatively quickly to introduce measures designed to raise incomes and reduce inequality, including an increase in the minimum wage and the conversion of informal workers to formal workers. In line with an election pledge to raise the minimum wage to 10,000 won by 2020, the government decided to raise the minimum wage for 2018 to 7,530 won (about ¥720), a 16.4% increase over the 2017 level, on July 15, 2017.

This quick-fire sequence of measures relating to job creation and income growth was followed on July 25 by the release of the basic framework of the new administration’s economic policy⁽⁵⁾.

This policy framework calls for a paradigm shift in terms of growth strategy. It consists of four pillars of growth (Table 2): income-led growth, the creation of an economy that will generate jobs, fair competition, and growth through innovation. *Chaebol* reform is basically positioned as part of the third pillar, fair competition.

The first pillar, income-led growth, is the most important feature of the economic policy pursued by the Moon Jae-in administration. This was also reflected in South Korea’s 2018 budget, which was passed by the National Assembly on December 6, 2017⁽⁶⁾.

While the total budget for fiscal 2018 was 7.1% larger than the fiscal 2017 budget, spending on welfare and employment was increased by 11.7%, or 15.2 trillion won. This was slightly lower than the budget bill put forward by the government, but it was still a major increase (Fig. 1). In other areas, defense spending was increased by 7.0%, or 40 billion won due to instability on the Korean Peninsula, but social overhead capital spending was cut by 14.1%, or 1.3 trillion won.

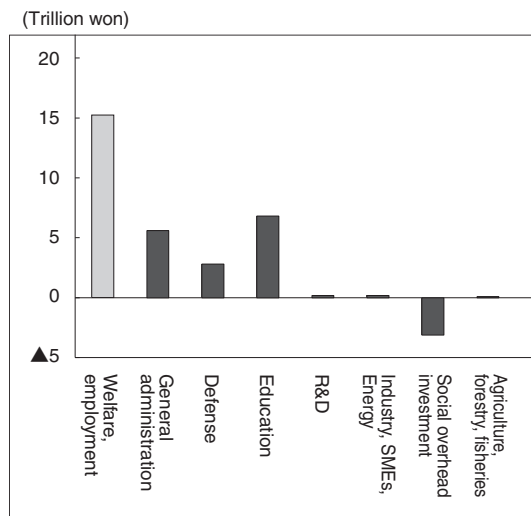
The decision to focus on income-led growth resulted from the failure of policies implemented

Table 2 Economic Policies of the Moon Jae-in Administration

| |
|---|
| 1. Income-led growth |
| <ul style="list-style-type: none"> • Improvement of household disposable incomes (.e.g., increase in the minimum wage, reduction of cost of living) • Reinforcement of safety nets, income guarantees for the socially vulnerable • Increased investment in education for all children |
| 2. Building a job-creating economy |
| <ul style="list-style-type: none"> • Pursuit of growth that leads to job creation • Promotion of decent work • Expansion of the job market |
| 3. Fair competition |
| <ul style="list-style-type: none"> • Elimination of unfair practices • Prevention of price manipulation, protection of consumer rights • Improvement of corporate governance • Pursuit of growth in partnership, protection of SMEs • Promotion of a social economy |
| 4. Growth through innovation |
| <ul style="list-style-type: none"> • Development of SMEs as a growth engine • Preparation of for the fourth industrial revolution • Development of global markets |

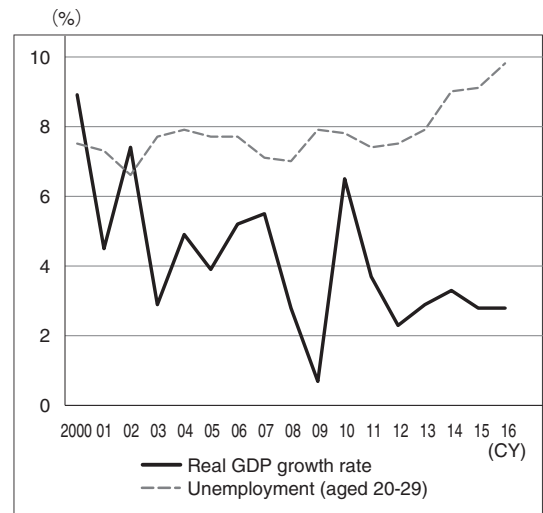
Source: Compiled by JRI from Ministry of Strategy and Finance, *New Administration's Economic Policies—Paradigm Shifted for Sustainable Growth*

Fig. 1 FY2018 Budget (YoY Changes)



Source: Ministry of Strategy and Finance

Fig. 2 Economic Growth Rate and Unemployment in South Korea



Source: Statistics Korea, Korean Statistical Information Service

under the consecutive conservative administrations of Lee Myung-bak and Park Geun-hye to yield significant results in either incomes or jobs. Real GDP growth was only 2.8% in both 2015 and 2016, while in 2016 the unemployment rate for young workers (defined here as those aged 20-29) reached its highest level since the 2000s (Fig. 2). This resulted not only from the falling growth rate, but also from a shortage of quality jobs, as evidenced by a decline in the number of new graduates being hired by large companies.

Partly because of the priority given to policies relating to income-led growth, initiatives linked to the fourth pillar of the administration’s economic policy—growth through innovation—were somewhat delayed and did not begin until the fall of 2017.

On October 11, the government created the Presidential Fourth Industrial Revolution Committee, with 20 members from the private sector and five from the government⁽⁷⁾. This committee’s task is to formulate a comprehensive national strategy for the fourth industrial revolution, and to monitor progress made on action plans by government ministries and agencies. At the committee’s second meeting on November 29, the “People-Centered Plan for Innovative Growth in the Fourth Industrial Revolution” was announced. This plan

contains forecasts of social and economic changes, schemes to cope with those changes, and a strategy for achieving growth through technological innovation. Measures in the plan include the commitment of 2.2 trillion won in the period to 2022 for the development of basic technology in such fields as nanotechnology and neuroscience, as well as intelligent technology, including as AI and big data. It also calls for the introduction of 5G mobile communications by March 2019, and the establishment of a special law to support the development of fintech through financial innovation. Other areas targeted for support under the plan include the development of businesses and human resources in such fields as smart cities, industrial robots, drones and self-driving vehicles.

On November 2, the government announced measures to support entrepreneurial activity as part of its policies relating to growth through innovation. These measures include a ten-trillion won innovative venture fund, with three trillion won coming from the government and the remainder from the private sector, the establishment of an entrepreneurship leave system, and the removal of taxes on stock options.

Another initiative that has attracted intense interest is the Pangyo Techno Valley project. The government will expand “software” support in

step with the construction of Pangyo 2nd Techno Valley, and there are also plans to transform the entire region into a pioneering smart city.

The Moon Jae-in administration deserves credit for the priority that it has given to innovation-led growth since its inauguration, and for in essence continuing the “creative economy” policies of the previous administration⁽⁸⁾.

(2) The Start of the *Chaebol* Reform Process

The government did not announce specific *chaebol* reform measures until quite recently (Table 3). As noted earlier, Professor Kim Sang-jo of Hansung University was appointed chairman of the Fair Trade Commission on June 13. On June 23 Kim held a meeting with representatives from four major *chaebol* (Samsung, Hyundai Motors, SK, LG), at which he stated that he basically

believed that his role as head of the Commission was to assess the role of the *chaebol* in the South Korean economy, and to work with them rather than impose government policies unilaterally. He further said that the *chaebol* needed to set a good example by pursuing self-reform, including the improvement of governance, the cessation of improper internal trading, and the normalization of transactions with subcontractors.

Although the mood at meeting was reportedly calm and polite, Kim made it very clear that if the *chaebol* failed to implement reforms voluntarily, the government would take the necessary steps itself.

In an interview with the *Korea Times* on August 29⁽⁹⁾, Kim stated that while he was waiting patiently for the *chaebol* to implement voluntary reforms, he would not wait forever. He said that if the expected reforms did not occur, he would begin to implement his own measures to change deep-seated *chaebol* practices, such as the inheritance of management rights within founding fami-

Table 3 Developments Relating to Key Policies

| 2017 | Income-led growth | Fair competition (<i>chaebol</i> reform) | Growth through innovation |
|--------|---|---|---|
| May | <ul style="list-style-type: none"> During a visit to Incheon International Airport, President Moon declared that during his term of office he would start an era in which there would be no informal employment in the public sector. Establishment of Employment Committee | | |
| June | <ul style="list-style-type: none"> Announcement of “100-day plan for jobs” (iljali) | <ul style="list-style-type: none"> Kim Sang-jo Korea appointed as Chair of the Fair Trade Commission First informal meeting with <i>chaebol</i> representatives | |
| July | <ul style="list-style-type: none"> Decision to raise minimum wage substantially in 2018 Passage of FY2017supplementary budget | | |
| August | | | |
| Sept. | | | |
| Oct. | | | <ul style="list-style-type: none"> Establishment of Fourth Industrial Revolution Committee |
| Nov. | | <ul style="list-style-type: none"> Second informal meeting with <i>chaebol</i> representatives | <ul style="list-style-type: none"> Announcement of start-up support measures Announcement of action plan for the fourth industrial revolution |
| Dec. | <ul style="list-style-type: none"> Passage of FY2018 budget | <ul style="list-style-type: none"> Investigation of <i>chaebol</i> non-profit foundations | |

Source: Compiled by JRI from media reports

lies, and circular shareholdings.

On November 2, Kim held a second meeting with representatives from five major *chaebol*, including Lotte. His stance was somewhat sterner than at the previous meeting. He told the *chaebol* representatives that their reform efforts were not meeting public expectations and strongly urged them to implement their reforms with a sense of urgency⁽¹⁰⁾. Kim also revealed that in December the Fair Trade Commission would start to scrutinize the management of non-profit foundations to determine if these foundations were being used to strengthen the dominance of the *chaebol* groups or help the *chaebol* families to avoid tax.

While Kim Sang-jo has not revealed the criteria that he will use to assess the progress being made on *chaebol* reform⁽¹¹⁾, it is clear that if the *chaebol* do not make sufficient progress with voluntary reforms, the government will implement reforms itself.

In Part 2, we will consider why *chaebol* reform has become necessary, based on the preceding analysis.

2. Why is *Chaebol* Reform Necessary?

Chaebol reform is needed primarily because of the harm caused by the concentration of economic power in the hands of the *chaebol*, fraudulent behavior surrounding the inheritance of management rights, and collusion between politicians and business people. Each of these issues will be examined in the following analysis.

(1) Concentration of Economic Power in the Hands of the *Chaebol*

We will look first at the harm caused by the concentration of economic power in the hands of the *chaebol*. This accumulation of economic power has been a problem for many years. Un-

der the Monopoly Regulation and Fair Trade Act (MRFTA) established in the 1980s, large corporate groups were designated according to specific criteria. This marked the start of efforts to create policies designed to curb the concentration of economic power in the hands of the *chaebol* (this is discussed further in Part 3)⁽¹²⁾.

Since the 2000s, economic power has increasingly gravitated toward the 30 major *chaebol*, and in particular toward the big four—Samsung, Hyundai Motors, SK, and LG (Table 4) from among the 30 major *chaebol* in South Korea. Between 2002 and 2015, the total assets of the 30 biggest *chaebol* increased by factor of 1.96 times, from 49.5% to 90.4% of GDP. The assets of the big four *chaebol* also increased by a factor of 1.96 times, from 33.3% to 65.2% of GDP. Samsung’s ratio rose by a factor of 2.39 times, from 9.4% to 22.6%, over the same period.

According to figures released by the Fair Trade

Table 4 Corporate Groups in South Korea

(Trillion won)

| Rank | Group | Assets |
|------|---|--------|
| 1 | Samsung | 363.2 |
| 2 | Hyundai Motor (split from Hyundai in 2000) | 218.6 |
| 3 | SK | 170.7 |
| 4 | LG | 112.3 |
| 5 | Lotte | 110.8 |
| 6 | POSCO | 78.2 |
| 7 | GS (split from LG in 2005) | 62.0 |
| 8 | Hanwha | 58.5 |
| 9 | Hyundai Heavy Industries (split from Hyundai in 2002) | 54.3 |
| 10 | Nonghyup | 50.8 |
| 11 | Shinsegae (split from Samsung in 1997) | 32.3 |
| 12 | KT | 32.1 |
| 13 | Doosan | 30.4 |
| 14 | Hanjin | 29.1 |
| 15 | CJ (formerly Cheil Jedang sugar refinery) | 27.8 |
| 16 | Booyoung | 21.7 |
| 17 | LS | 20.7 |
| 18 | Daelim | 18.4 |
| 19 | Kumho | 15.6 |
| 20 | Daewoo Shipbuilding & Marine Engineering | 15.2 |

Notes: Announced on May 1, 2017.
Source: Korea Fair Trade Commission

Commission⁽¹³⁾, the assets of the big four *chaebol* grew by 20.8% over the past five years (2013-2017). Mid-ranked *chaebol* (5th to 10th in terms of total assets) achieved growth of 17.1%, while low-ranked *chaebol* (11th to 30th) saw their assets increase by 6.6%. These figures show a continuing tendency toward the concentration of economic power, in terms of asset value, in the hands of the top four *chaebol*.

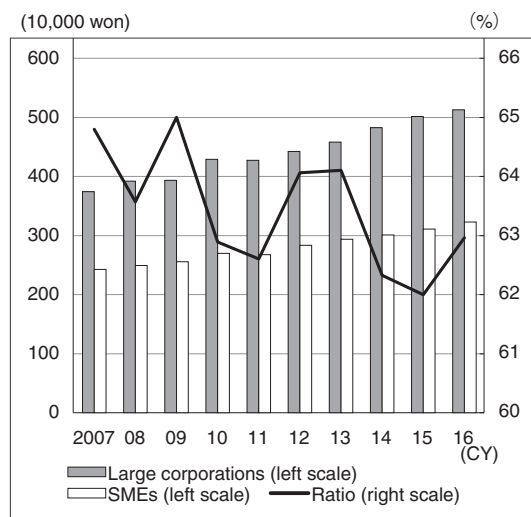
This gravitation of economic power toward the *chaebol* can be explained in part by the high growth potential of the main business areas of each of these top *chaebol* (for example, Samsung specializes in semiconductors), as well as proactive investment in new business opportunities. However, starting in 2009 there was an increase in the amount of economic power being concentrated in these *chaebol* due to the effects of the policies of President Lee Myung-bak (2008-13). In addition to carrying out deregulatory measures and tax cuts in order to revitalize the economy, Lee also abolished the total equity investment ceiling system in 2009⁽¹⁴⁾.

The total equity investment ceiling system was designed to reduce the concentration of economic power by limiting the ownership of shares in affiliated companies by other companies within the same corporate group. (This aspect will be examined in more detail in Part 3.)

With the continuing concentration of economic power in the hands of the *chaebol*, growing inequality has become a problem. For example, there is increasing disparity between the wage levels in large corporations and SMEs (Fig. 3). In terms of employment formats, a relatively high percentage of workers in SMEs are informal employees. The average wage of informal employees in SMEs is only 48% of the average for regular employees in large corporations. The low productivity of SMEs forces many of these companies to use informal workers in order to reduce labor costs. The wage gap also hinders the efforts of SMEs to attract talented staff.

One person who has strongly advocated the need for *chaebol* reform in recent years is Professor Park Sang-in of Seoul National University. Professor Park has warned that the growing de-

Fig. 3 Wage Gap between Large Corporations and SMEs



Notes: Total wages, including basic wage and special allowances.
 Source: Ministry of Employment and Labor, employment and labor statistics database

pendency of the South Korean economy on the Samsung Group means that the entire South Korean economy would be seriously impacted by a crisis affecting Samsung. He argues that South Korea should reduce this risk by shifting from a government-led, *chaebol*-centric economy to a socially integrated market economy (Park Sang-in [2017a], [2017b]).

Professor Park has also highlighted some of the problems linked to the government-led, *chaebol*-centric economy. First, *chaebol* groups consisting of numerous vertically-integrated businesses were effective during South Korea's "catch-up" period, but this approach is now an obstacle to achieving the innovation required for the evolution of more sophisticated industries with higher added value. Second, the *Chaebol* absorb technology from SMEs, while also putting them under constant pressure to reduce prices. This not only results in wage inequality, but also deprives SMEs of the resources needed to pursue business innovation. Third, inadequate separation of financial and industrial capital increases the risk that crises will spread. For these reasons, Professor Park has stated that *chaebol* reform is essential to innovation and the reduction of inequality in the South

Korean economy.

It is significant that Professor Park has cited the fact that *chaebol* reform leads to innovation as a reason for its importance. Others stress the need for *chaebol* reform because they see the *chaebol*-centric economic structure as a source of distortions in the market economy (이종보 지음 [2017]).

The debate over *Chaebol* reform tends to focus on the achievement of economic democratization, such as through the reduction of inequality. However, the view that *chaebol* reform is essential to market normalization as a way of driving economic innovation has also persuaded those who recognize the importance of the market economy to accept *chaebol* reform positively.

(2) Fraud Connected to Inheritance of Management Rights

South Korea has implemented a variety of regulatory measures targeting the *chaebol*. As discussed in Part 3, a comprehensive package of *chaebol* reform measures was implemented after the currency crisis. These measures, which are still in effect requirements designed to enhance management transparency, such as the introduction of an external director system, the preparation of consolidated financial statements, and the appointment of *chaebol* chairmen to positions that have legal responsibilities. However, no radical changes have been made concerning the control of the *chaebol* by their founding families.

Characteristics of the *chaebol* include debt-fueled expansionary management, octopus-style management, top-down management by *chaebol* chairmen, and the high level of internal transactions among affiliated companies. However, it would be reasonable to conclude that the most important characteristic is the lack of differentiation between ownership and management, as manifested in the direct involvement of the founding families in management⁽¹⁵⁾.

In the chaos of the postwar period, when many companies were established, there was a strong

tendency to limit management posts to trusted family members⁽¹⁶⁾. However, how can we explain the continuing failure to separate ownership and management now that these companies are competing in global markets?

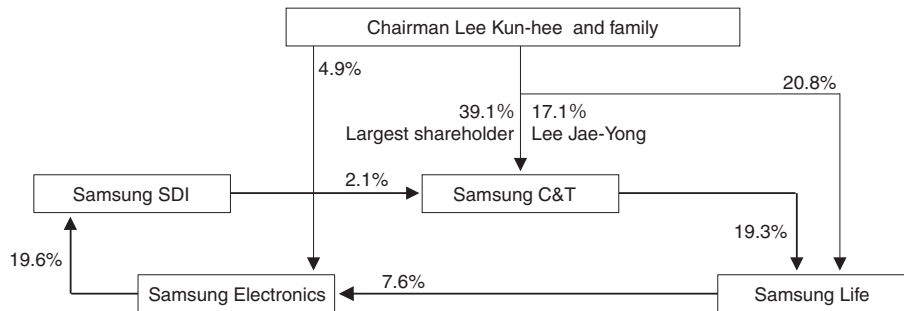
According to Toshiyuki Endo, South Korea's *chaebol* have sought to maintain their *chaebol* status by strengthening cross-shareholdings among affiliated companies, by reorganizing their ownership structures, and by fully exploiting exemptions and exceptional approvals under the rules limiting total equity investment⁽¹⁷⁾.

One strategy used by the founding families to control their *chaebol* is circular shareholdings. Circular shareholders are capital relationships that link Company A to Company B to Company C and back to Company A. This allows a founding family to control an entire *chaebol* despite owning only a small percentage of shares. In the case of Samsung, Samsung Electronic's largest shareholder is the group company Samsung Insurance. The major shareholders of Samsung Life Insurance are Lee Kun-hee and his family, while Samsung C&T acts as the group's de facto holding company, with Lee Jae-yong as its largest shareholder (Fig. 4). The problem with this is the difficulties that arise when management rights are inherited, as evidenced by frequent cases of improper trading of securities in relation to inheritance.

In the near future, management rights in many *chaebol* are expected to be passed down from the second generation of founding family members to the third generation. Lee Kun-hee of Samsung, who is the third son of founder Lee Byung-chul, is likely to be succeeded by his eldest son Lee Jae-yong, while Hyundai Motors chairman Chung Mong-koo, the second son of founder Chung Ju-yung, is expected to be succeeded by his eldest son, Chung Eui-sun.

We will look at Samsung as a case study. In 1996, a problem arose after Lee Jae-Yong purchased convertible bonds issued by the unlisted company Samsung Everland, which was then the group's de facto holding company, for below the market price. The process involved was that Lee acquired shares in two affiliated companies, S-1 Corporation and Samsung Engineering, which

Fig. 4 Examples of Circular Shareholdings in the Samsung Group



Seven circular shareholdings in the Samsung Group

- ① Samsung C&T → Samsung Life → Samsung Fire → Samsung C&T
- ② Samsung C&T → Samsung Life → Samsung Electronics → Samsung SDI → Samsung C&T (see diagram)
- ③ Samsung C&T → Samsung Life → Samsung Fire → Samsung Electronics → Samsung SDI → Samsung C&T
- ④ Samsung C&T → Samsung Life → Samsung Electronics → Samsung Electro-Mechanics → Samsung C&T
- ⑤ Samsung C&T → Samsung Life → Samsung Fire → Samsung Electronics → Samsung C&T
- ⑥ Samsung C&T → Samsung Electronics → Samsung Electro-Mechanics → Samsung C&T
- ⑦ Samsung C&T → Samsung Electronics → Samsung SDI → Samsung C&T

Source: Maeil Business Newspaper, April 28, 2017, Fair Trade Commission documents, etc.

were subsequently listed. After listing, he sold his shareholdings and used the resulting profits to acquire convertible bonds issued by Samsung Everland. However, it was subsequently discovered that Samsung Everland had allocated the bonds to all four of Lee Kun-hee's sons, including Lee Jae-yong, at below their market value. The former president of Samsung Everland was prosecuted on suspicion of harming the interests of the company⁽¹⁸⁾.

In 2014 Samsung Everland changed its name to Cheil Industries, and in 2015 it was absorbed by Samsung C&T (Table 5). Given that Samsung C&T is currently acting as the de facto holding company for the Samsung Group, the reasons behind the purchase of the Samsung Everland convertible bonds are obvious.

Another method used to generate the funds needed to ensure the inheritance of management rights involves the creation of a company within the group with a third-generation family member as the largest shareholder. After the business performance of this company has been boosted through internal transactions and other means, it is listed on the stock exchange. This kind of unfair

Table 5 Reorganizing the Samsung Group

- ◇ July 2014: Samsung SDI and Cheil Industries merged, with Samsung SDI as the surviving company.
Samsung SDI: originally a CRT manufacturer, more recently a manufacturer of automotive batteries
Cheil Industries: semiconductors, display materials
*Cheil Industries was one of the original parent companies of the Samsung Group. Its core business shifted from textiles to fashion (spun off in 2013), chemicals, and electronic materials.
- ◇ July 2014: Samsung Everland (the de facto holding company) was renamed Cheil Industries. Its biggest shareholder is Lee Jae-yong.
- ◇ December 2014: Cheil Industries (the de facto holding company) was listed on the stock exchange.
- ◇ September 2015: Samsung C&T merged with Cheil Industries and became the de facto holding company.
At a special general meeting of shareholders of Samsung C&T**, the National Pension Service and other shareholders approved the proposed merger. Foreign shareholders opposed the merger.
Lee Jae-yong became the biggest shareholder.
**As part of events linked to Choe Sun-sil's interference in government policy, the President's office is suspected of influencing the National Pension Service to vote for the merger, in exchange for a donation to the Mir Foundation.

Source: Media reports

internal trading is one of the practices targeted by the *chaebol* reforms.

Another issue relating to the inheritance of management rights is doubts about the abilities and personal qualities of third-generation owners⁽¹⁹⁾. Unlike the second generation, who witnessed the struggles of the *chaebol* founders for themselves, the third generation has grown up in a privileged environment. Recent scandals include the “Korean Air nut rage incident”, which involved the eldest daughter of Cho Yang Ho, chairman of the Hanjin Group and eldest son of Hanjin founder Cho Choong Hoon, as well the “bun fight”⁽²⁰⁾.

(3) Repeated Cases of Business-Political Collusion

Former President Park Geun-hye was impeached and arrested following the exposure of series of scandals involving both Park and her associate Choi Soon-sil. It was alleged that a presidential aide had leaked confidential information to Choi, that Park had demanded contributions to the Mir Foundation and K-Sports Foundation, with which Choi was closely involved, had used illicit means to secure her university admission for Choi’s daughter, and had intervened in a Samsung merger deal.

The vice chairman of Samsung Electronics, Lee Jae-yong, was also arrested on suspicion that he asked for pressure to be applied to the National Pension Service to vote in favor of the merger between Samsung C&T and Cheil Industries, in return for a Samsung donation to the Mir Foundation.

The problem for South Korea is the never-ending series of incidents resulting in the arrest of former presidents and their aides or family members. This is apparent from events after the collapse of the Park Chung-hee administration following Park’s assassination in 1979. In 1995, during the administration of Kim Young-sam, South Korea’s first freely elected civilian president, former Presidents Chun Doo-hwan and Roh Tae-woo, both military officers, were arrested for being ringlead-

ers in a coup d’état and the illegal accumulation of wealth. They were pardoned in 1997. President Kim Young-sam also found himself in a difficult situation near the end of his administration after his second son was arrested for arranging bribes, at a time when the economy was being buffeted by the currency crisis.

President Kim Dae-jung, who took office immediately after the currency crisis, had some success with economic reconstruction and dialogue with North Korea, but three of his children were arrested for arranging bribes. After the next president, Roh Moo-hyun, left office, family members and aides were arrested on bribery charges, and Roh himself was questioned by prosecutors. He subsequently committed suicide. The elder brother of the next president, Lee Myung-bak, was arrested for accepting illegal funds.

A key reason for these repeated cases of corruption is the desire of businesses to build close relationship with the president because of the strong powers that come with the office. However, we also need to be aware that the relationships involved in collusion between business people and politicians were formed during the postwar developmental state era.

Particularly significant was the fact that the Park Chung-hee administration selectively chose a small number of *chaebol* and gave them approval for projects relating to industrialization and supplied them with the funds needed through financial institutions controlled by the government. This encouraged companies to engage in behavior designed to build close links with those holding political power in order to secure approvals from the government.

As outlined above, there are three main reasons why *chaebol* reform is necessary. First, the concentration of economic power in the hands of the *chaebol* produces harmful effects, while a *chaebol*-centric economic structure constrains economic innovation. Second, the high level of control that founding families have over the *chaebol* is difficult to maintain without resorting to illegal trading of securities. Third, there have been repeated cases of collusion between the *chaebol* and those holding political power.

In Part 3, we will look at the formation of the relationship between the *chaebol* and the government through South Korea's economic development process.

3. Changing Relationship between the *Chaebol* and the Government

The following analysis looks at the formation and evolution of the relationships between the government and the *chaebol* during South Korea's economic development process. We will also examine the achievements and problems that have emerged from the *chaebol* reforms after the currency crisis.

(1) The Birth of the *Chaebol*

The parent companies for most of today's leading *chaebol* were established just before or just after World War II. The consensus view is that Samsung Sanghoe, a trading company founded in 1938, was the starting point for the Samsung Group, and that the Hyundai Group originated with the founding of Hyundai Civil Industries (now Hyundai Engineering and Construction) in 1947.

When the Republic of Korea (South Korea) was founded on September 1, 1948, its economic situation was extremely bleak. Japanese engineers had left after liberation, and the supply of electric power from the north was halted after the division of the Korean peninsula into North and South Korea. An influx of returnees from Japan and Manchuria and cross-border refugees from North Korea brought rapid population growth. This caused severe shortages of goods, as well as inflation.

Much of South Korea was desolated during the Korean War (June 1950-July 1953). After the ceasefire, South Korea and the United States signed a Mutual Defense Treaty (in effect since

November 1953). South Korea was seen as a front line base for the Free World, and US troops stationed in South Korea began to play a pivotal role in its security. The United States also supported South Korea's economic reconstruction by providing large amounts of aid.

Within South Korea, aid goods were used as the basis for import replacement industrialization. This process was typified by the "three white" industries: sugar refining, flour milling, and spinning. The foundations for the Samsung conglomerate were laid during this period with the founding of the Cheil Jedang sugar refinery and Cheil Woolen Fabrics Industries. The Hyundai Group grew by capturing construction demand generated by South Korea's economic reconstruction and the development of U.S. military bases.

In an environment of continuing economic upheavals and political instability, industrialists supported the administration of Rhee Syngman through political donations and other means. In return, the government helped them to access various benefits, including the assets of enemy aliens (Japanese), foreign currency loans, and aid goods from the United States. Collusion between the business sector and the government evolved through this trading of rights and privileges. Conversely, businesses that were viewed with disfavor by the government were hindered in every way possible.

President Rhee won a fourth term in office in the presidential election of March 1960. However, he was forced to resign amid growing protests by students and ordinary citizens enraged by massive corruption. The coalition government formed by Chang Myon after Rhee's resignation was wracked by repeated internal conflicts that resulted in continual political instability.

General Park Chung-hee then seized power by staging a coup d'état in this turbulent situation. Economic development moved forward during the Park administration, which lasted from 1961 to 1979.

(2) The Developmental State

Political stability and economic development were the greatest priorities for Park Chung-hee, who took office as president in 1963. Park suppressed democratization and established a “development dictatorship”—an authoritarian regime focused on economic development.

At that time, South Korea was one of the poorest countries in the world and was in confrontation with North Korea under the Cold War structure. For these reasons, South Korea needed to catch up with North Korea’s level of industrialization as quickly as possible⁽²¹⁾.

President Park initially confiscated assets obtained unlawfully by the *chaebol* under a policy calling for the punishment of industrialists who had illegally accumulated assets during the Rhee administration. In practice, however, the crimes of these industrialists were overlooked in exchange for their cooperation in the government’s economic development efforts.

Development was approached under government leadership. For example, the newly established Economic Planning Board was granted extensive powers, including the authority to formulate five-year plans, prepare budgets, and approve foreign investment, while financial institutions were placed under government control⁽²²⁾. We can identify several distinctive characteristics of government policies in this period. First, industrialization focused on export-oriented industries, especially light manufacturing. Second, the growth of export industries was leveraged to develop heavy industries. Third, the products of industrialization, including fertilizers and machinery, were used through the *Saemaul Undong* (New Village Movement) to raise rural living standards.

A variety of measures were introduced to foster exporting. The exchange rate was cut in 1961 and 1964. In 1965, the government selected 13 products, including raw silk, cotton textiles, ceramics, rubber products, plywood, and apparel, as dedicated export industries. In 1967, the Korea Exchange Bank (KEB) was established as a specialized foreign exchange bank. Other measures

included the creation of bonded processing zones, the improvement of export finance, the establishment of the Korea Trade-Investment Promotion Agency (KOTRA), and the provision of support to general trading companies. Finance for up to 90% of the value of export goods could be obtained by submitting exports letter of credit, and interest rates were more favorable than those applied to general loans. This triggered a flurry of activity with companies rushing to secure export letters of credit.

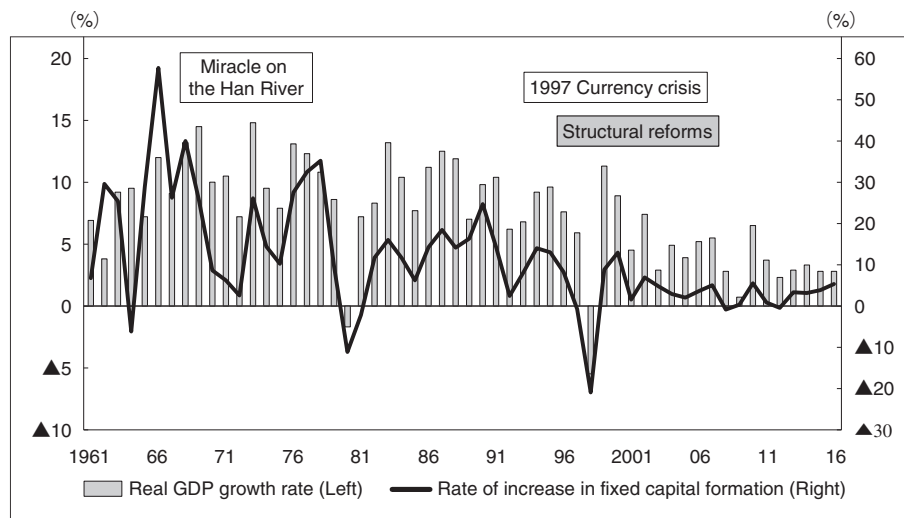
During the 1960s, these measures resulted in rapid export expansion, which in turn drove growth in manufacturing industries. By aggressively buying up bankrupt companies, Daewoo Industrial, which was founded in 1967, was able to expand relatively quickly into a major conglomerate engaged in industries ranging from shipbuilding and automobiles to electronics. Before the currency crisis, Daewoo ranked alongside Hyundai, Samsung, LG, and SK as one of the big five *chaebol*.

In the 1970s, the government began to promote the development of heavy industries. At a press conference in 1973, President Park announced the “Heavy-Chemical Industry Drive.” This policy resulted from three factors. First, imports of intermediate goods used in export production were expanding, and it was necessary to shift to domestic production of these items. Second, after declaring a state of emergency in 1971, President Park needed to justify his regime by achieving ambitious goals. Third, the development of defense industries in South Korea had become a priority after the United States indicated that it planned to reduce the deployment of U.S. forces in South Korea under the Nixon Doctrine (1969).

Although changes in the domestic and international environments necessitated course shifts for the Heavy-Chemical Industry Drive, the policy produced major benefits. Symbols of this policy include the construction of a steelworks by Pohang Iron and Steel Company (now POSCO) and a shipyard by Hyundai Heavy Industries.

Known as the “Miracle on the Han River,” the rapid economic growth achieved under the Park administration enabled South Korea to achieve its

Fig. 5 South Korea's Real GDP Growth Rate



Source: World Bank, *World Development Indicators*, etc.

cherished goal of an escape from poverty (Fig. 5). This rapid growth resulted both from the government's strong commitment to development, and also from the dynamic business activities undertaken by the *chaebol* with government support.

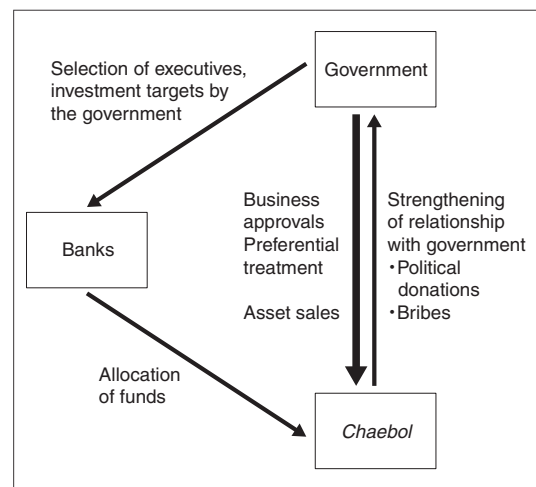
Two factors were involved in the evolution of the relationship between the *chaebol* and the government. First, the government gave particular companies permission to participate in priority business areas to ensure the effective allocation of limited resources. Second, banks allocated funds to companies that were granted this permission (Fig. 6). Within this structure, companies did everything possible to build good relationships with people at the center of power in order to secure business permits and finance.

One of the reasons for the rapid growth achieved by the Daewoo conglomerate was the business acumen of its founder Kim Woo-jung. Another key factor was the close relationships that it built with political leaders, with the result that it was able to acquire nationalized bankrupt businesses and obtain government support.

(3) Post-Developmental State Phase

After the Park regime, the relationships that

Fig. 6 *Chaebol*-Government Relationship in the Developmental State Era



Source: JRI

had evolved between the *chaebol* and the government during the developmental state era began to change gradually. The following three factors had a major influence on *chaebol*-government relations under the administrations of Presidents Chun Doo-hwan, Roh Tae-woo, and Kim Young-sam in the period leading up to the 1997 currency crisis.

The first factor was a shift in the balance of power between the *chaebol* and the government.

Having achieved growth thanks to government support, the *chaebol* increasingly used their growing economic power to move closer to political power and extract special privileges. Hanbo Group founder Chung Tae-soo used bribery and connections with political leaders to obtain loans from banks, allowing him to expand his business operations rapidly over a short period of time. By the time of the currency crisis, Hanbo was the 14th-ranked *chaebol* in terms of total assets. However, the collapse of Hanbo in 1997 was the trigger for the currency crisis.

Economic power became concentrated in the hands of the *chaebol* during the high-growth period. This was reflected in growing inequality, with the result that measures to curb the economic might of the *chaebol* became a policy priority. The government's response was to impede further expansion of the economic power of the *chaebol* by imposing various restrictions on them under the Monopoly Regulation and Fair Trade Act (MRFTA), which it established in 1980.

Major amendments implemented in 1986 resulted in the following changes to the MRFTA.

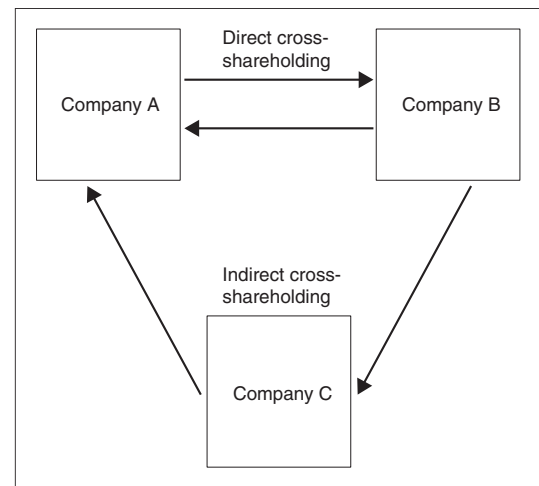
- (1) The target of regulation was changed from individual companies to corporate groups.
- (2) Direct cross-shareholding between companies in the same conglomerate was prohibited (Fig. 7)⁽²³⁾.
- (3) A limit on total equity investment was introduced.

The purpose of the limit on total equity investment was to create a specific standard for the designation of corporate groups⁽²⁴⁾, and to limit the shareholdings of group companies in other group companies.

A third amendment to the MRFTA in 1992 placed a limit on reciprocal debt guarantees among group companies. There was now a basic framework under the Act, consisting of restrictions on direct reciprocal equity investment, total equity investment, and reciprocal debt guarantees. (These restrictions were repeatedly eased or tightened in response to changes in the economic environment.)

Regulations based on the MRFTA were first applied to the *chaebol* in the 1980s. However,

Fig. 7 Direct and Indirect Cross-Shareholdings



Source: 최정표 지음 [2014], p.265

the *chaebol* used financial liberalization (including bank privatization, and the expansion of the *chaebol* in the non-bank area) as an opportunity to strengthen their capacity to procure finance. As a result, the government's ability to control the *chaebol* was effectively weakened in this period.

The second factor was democratization. The assassination of President Park in 1979 was followed by a brief surge of pro-democracy activities, but these were suppressed by the military, which controlled political power. Democratization would have to wait until the June 29 Declaration of 1987⁽²⁵⁾.

The June 29 declaration was followed by a surge of activities by the labor movement and grass-roots movements, which began to have an influence on government policy and corporate activities. The Citizens' Coalition for Economic Justice was founded in 1989, and People's Solidarity for Participatory Democracy in 1994 (see Note 2). People's Solidarity for Participatory Democracy became particularly influential after the currency crisis through its efforts to democratize the economy. In addition to monitoring the corporate activities of the *chaebol*, it was also involved in activities by minority shareholders and shareholder class action lawsuits. (Among those who played

an active part in these initiatives was Kim Sang-jo, the present chairman of the Fair Trade Commission.)

The third factor was progress toward liberalization. Until the 1970s, South Korea had benefited from globalization through export expansion. However, it gradually came under pressure from the United States and other countries to open up its domestic markets. People within South Korea also began to call for liberalization, which was seen as essential to the development of a stronger economic structure. In the 1980s, South Korea began to follow the global trend toward financial liberalization. Banks were privatized, and the establishment of new banks was allowed⁽²⁶⁾. The Shinhan Bank was established during this period.

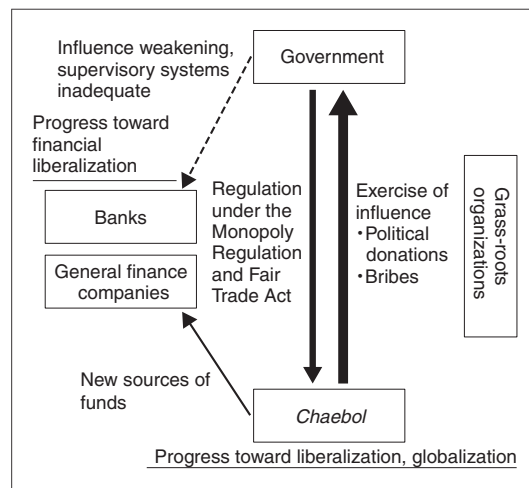
In the 1990s, OCED membership became a goal. During the presidency of Kim Young-sam (1993-1998), the government moved further toward deregulation with the aim of realizing this ambition, which was achieved in 1996. This allowed *chaebol* companies to move into the second financial sector (non-banks). One after another they established general finance companies, which expanded their business operations by procuring massive amounts of funds overseas. This trend further reversed the balance of power between the *chaebol* and the government (Fig. 8).

The *chaebol* used short-term capital from overseas to expand their business operations. This was one of the triggers for the currency crisis. Another was the inadequacy of management structures in banks and supervisory agencies.

(4) *Chaebol* Reforms after the Currency Crisis

In 1997, several mid-ranked *chaebol* went bankrupt one after another, including Hanbo (14th biggest in terms of assets), Sammi (26th), Jinro (19th) and Kia (8th). This triggered a rapid worsening of the financial positions of financial institutions that had provided loans to these groups. The won came under pressure as huge amounts of capital were pulled out of South Korea.

Fig. 8 Changing Relationship between the *Chaebol* and the Government



Source: JRI

The Bank of Korea tried to stabilize the won by intervening in the foreign exchange market, but on November 21, with South Korea's foreign currency reserves exhausted, the government called for emergency assistance from the IMF. On December 3, the IMF and the Bank of Korea exchanged letters of intent stipulating conditionality. The core of the economic program was a comprehensive restructuring and reform plan for the financial sector.

In December of the same year, Kim Dae-jung won the presidential election. Before taking office he met with the chairmen of four major *chaebol* and reached agreement on five key priorities relating to *chaebol* reform. (The chairman of Daewoo did not attend this meeting.) Those priorities were ① the improvement of management transparency, ② the elimination of reciprocal debt guarantees, ③ the improvement of financial structures, ④ the identification of core business areas and increased cooperation with small and medium enterprises, and ⑤ increased accountability by controlling shareholders and management.

After taking office in February, the Kim Dae-jung administration began to implement structural reforms with support from the IMF, while also focusing on the development of venture businesses.

Its aim was to create a knowledge-based economy to replace the *chaebol*-dominated economic system. Restrictions on foreign investment were substantially eased to accelerate reform through the use of foreign capital.

Chaebol reform was approached as part of structural reforms, the four main pillars of which were corporate restructuring, the restoration of the financial system, labor market reform, and public sector reform. Specific measures were based on the items on which agreement had already been reached with the *chaebol*, including increased management transparency, the elimination of reciprocal debt guarantees, the improvement of financial structures, specialization in particular industries, and the improvement of management accountability. Particular priority was given to the improvement of corporate governance, since governance deficiencies, including inadequate corporate governance and government supervisory systems, were one of the factors that led to the currency crisis⁽²⁷⁾.

Measures designed to enhance management transparency included the introduction of independent directors, and the mandatory preparation of consolidated financial statements. Before the currency crisis, *chaebol* chairmen exercised overall management of their groups, including strategic investment decisions, and the appointment of senior executives for affiliated companies, without any legal liability. Now they were required to become representative directors of core companies in a way that exposed them liability under the law.

One of the measures introduced to improve financial structures was a requirement for companies to reduce their debt ratios to 200% or lower by the end of 1999⁽²⁸⁾. In 1997, the average debt ratios for manufacturers reached almost 400%, or more than double the level in Japan and the United States.

The purpose of specialization in core business areas was to promote a shift away from the traditional many-tentacled approach to business toward the selection and concentration of management resources. The “Big Deal” concept—the exchange of businesses among *chaebol*—was created in this period. However, with the exception of SK Hynix,

which was created by integrating the semiconductor operations of the Hyundai and LG Groups and is now part of the SK Group, there have been few successes. There are limits to the extent to which industries can be restructured through government initiatives that are not based on the market principle.

The currency crisis transformed the *chaebols*’ power landscape. Around one-half of the 30 conglomerates that had existed before the crisis disappeared from the market. There were even changes among the big five *chaebol* (Table 6). The Hyundai Group, the biggest of the *chaebol*, was split into the Hyundai Motor Group, Hyundai Department Store Group, Hyundai Heavy Industries Group and Hyundai Development Company Group. This followed a dispute over who would succeed the group’s chairman, Chung Ju-yung, and Chung’s death in 2001. The Daewoo conglomerate experienced financial difficulties after the currency crisis, and the group was split up. Daewoo Motors was sold to GM, Daewoo Heavy Industries & Machinery to the Doosan Group, and Daewoo International to POSCO. Daewoo Shipbuilding & Marine Engineering became an affiliate of the Korea Development Bank.

Economic reconstruction became the priority after the currency crisis. This resulted in major

Table 6 South Korea’s Top 10 Corporate Groups (by Assets)

| | 1997 | 2017 |
|----|--|---|
| 1 | Hyundai | Samsung |
| 2 | Samsung | Hyundai Motor (split from Hyundai in 2000) |
| 3 | LG | SK |
| 4 | Daewoo | LG |
| 5 | SK(name changed from Sunkyong in 1998) | Lotte |
| 6 | Ssangyong | POSCO |
| 7 | Hanjin | GS (split from LG in 2005) |
| 8 | Kia (part of Hyundai Motor Group since 1998) | Hanwha |
| 9 | Hanwha | Hyundai Heavy Industries (split from Hyundai in 2002) |
| 10 | Lotte | Nonghyup |

Source: Fair Trade Commission of South Korea

amendments to the Monopoly Regulation and Fair Trade Act. The main changes were as follows.

First, the establishment of holding companies was legalized, subject to certain conditions, for two reasons. (1) After the currency crisis, South Korea needed to encourage foreign investment actively, and it became necessary to allow holding companies, which had already been legalized in developed countries. (2) The transition to the holding company system was seen as a way to simplify the ownership structures of the *chaebol* and enhance management transparency. Among the major *chaebol*, LG switched to a holding company structure in 2003, and SK in 2007⁽²⁹⁾.

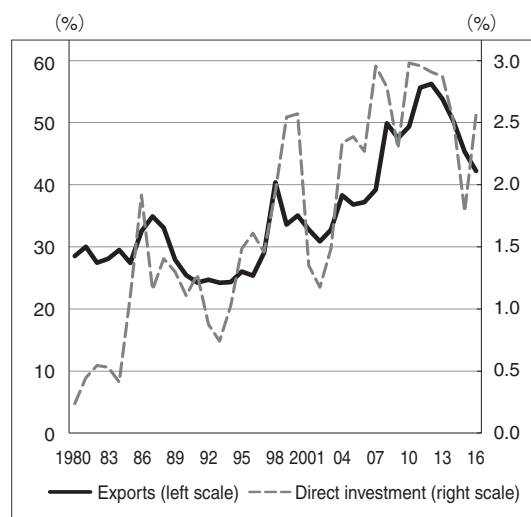
Second, the limit on total investment was abolished. One reason for this change was the fact that domestic companies would be at a disadvantage relative to the foreign companies that were expected to invest in South Korea. Another was that the limit was an obstacle to M&A as a mechanism for economic reconstruction. The removal of the limit was also a quid pro quo for the elimination of reciprocal debt guarantees.

However, groups eventually began to expand through circular shareholdings, and in 1999 the limit on total investment was reinstated. Since then, the limit on total investment has been repeatedly tightened or eased (through increases in the ceiling, exemptions, or exceptions) in response to subsequent changes in the economic environment.

(5) Globalization and Deregulation

South Korea's economic globalization accelerated in the 2000s. Evidence of this includes conspicuous increases in the ratios of exports of goods and services and direct investment to GDP (Fig. 9). Among the reasons for this acceleration of globalization were (1) the dramatic shrinkage of domestic markets after the currency crisis, (2) the inevitability of further shrinkage of domestic markets in the future due to a falling birthrate and demographic aging⁽³⁰⁾, and (3) the emergence of new business opportunities resulting from the sustained growth of emerging economies. Major

Fig. 9 15 Ratios of Exports and Direct investment to GDP



Notes 1: Exports of goods and services.

Notes 2: Direct investment is the sum of assets and liabilities based on the international balance of payments.

Source: Statistics Korea, Korean Statistical Information Service

companies, especially *chaebol* firms, globalized aggressively through exporting and the expansion of local production operations in other countries.

To gain a global competitive advantage, companies need to invest in new product development and cost reduction. There was growing awareness of the fact that the limit on total investment was hindering this type of investment. Lee Myeong-bak, who became president in 2008, promised to increase investment and create jobs by easing regulations and cutting taxes. Moves toward deregulation during his administration included the abolition of the limit on total investment.

However, this caused further concentration of economic power in the hands of the *chaebol*. It also created the problem of financial pressure on small and medium enterprises by major corporations. In response to growing criticism from the public and government defeats in elections, President Lee reversed his policy, which was seen as favoring big corporations. In November 2010, the Distribution Industry Development Act was amended to prohibit the establishment of major retail outlets within 500 meters of existing mar-

kets. At the end of 2010, the Korea Commission for Corporate Partnership was established, marking the start of efforts to create a framework in which large corporations and small and medium enterprises can share profits. (Industries suitable for SMEs were specifically designated on an advisory basis.)

In the fall of 2011, additional tax cuts planned for the following year were cancelled. In 2012, President Lee asked the *chaebol* groups to pull out of business areas best suited to SMEs. In response, the *chaebol*, including Silla Hotel (Samsung Group), Hyundai Motors, and the Lotte Group, indicated that they would pull out of the bakery business. Several groups, including Lotte, Hyundai Heavy Industries, GS, Hanjin, and Hanwha, changed their practice of funneling orders for work to their affiliated companies and began to make increased use of competitive bidding in the areas of advertising, systems integration, construction, and logistics.

The Fair Trade Commission meanwhile introduced a series of measures to prevent franchise chains in such areas as bakeries, coffee shops, and pizza restaurants from opening new outlets within a specific distance of existing outlets. (Companies operating outlets directly were exempted.) The aim of these measures was to protect the livelihoods of retirees who went into business by operating a franchise outlet. After much debate, it was decided to amend the Distribution Industry Development Act to require large discount stores and SSMs to close between midnight and 8 a.m. and on the second Sunday each month.

Economic democratization became a key issue in the presidential election held on December 12, 2012. The conservative candidate Park Geun-hye won the election after promising to build a “creative economy” and promote economic democratization. She took office in February 2013, and on April 30 the National Assembly passed an amendment to the Subcontracting Act to allow a subcontractor to claim compensation equivalent to three times the loss incurred when the main contractor unfairly cancels orders, returns goods, or beats down prices. As part of the economic democratization process, the government also banned new

circular investment, although existing circular shareholdings were allowed to remain in place.

As is clear from the preceding discussion, regulations targeting the *chaebol* have changed rapidly in the years since the currency crisis, in step with changes in the economic environment.

4. The Outlook for *Chaebol* Reform

We will conclude this article by looking at the likely course of *chaebol* reform under the Moon Jae-in administration, and the types of problems that could arise, based on the preceding analysis.

(1) The Direction of Reform

As stated earlier in this article, Fair Trade Commission Chair Kim Sang-jo urged the *chaebol* to carry out reforms voluntarily. However, the reform measures implemented so far have failed to meet expectations, and there is an increasing possibility that the government will take the initiative. Recently there have been developments that could be seen as harbingers of government actions.

In December 2017, the Fair Trade Commission launched an investigation into non-profit foundations established by the *chaebol*. *Chaebol* representatives were warned of this investigation at the second informal meeting with Mr. Kim in November. The purpose of the investigation was to determine whether the *chaebol* were using their non-profit foundations to strengthen their group control structures and allow the *chaebol* families to avoid tax. In preparation for an analysis of the situation, the Fair Trade Commission directed the *chaebol* to provide the necessary documentation. On December 21, the Fair Trade Commission changed its guidelines on circular shareholdings⁽³¹⁾ and announced that Samsung SDI would be ordered to divest approximately 4,000,000 shares in Samsung C&T that it had acquired when Samsung

C&T merged with Cheil Industries in 2015. This reversed a ruling made by the Fair Trade Commission two years earlier. The reason for this was that the acquisition was equivalent to a new circular investment in the view of the Fair Trade Commission.

Before the merger (Fig. 10), there was a circular capital relationship linking Samsung Life to Samsung Electronics, to Samsung SDI, to Cheil Industries, and back to Samsung Life⁽³²⁾. The merger changed this into a circular capital relationship linking Samsung C&T to Samsung Life, to Samsung Electronics, to Samsung SDI, and back to Samsung C&T. At the time, the Fair Trade Commission deemed this to be a strengthening of an existing circular capital relationship, but with the change to the guidelines, it was now seen as a new circular capital relationship.

The investigation of non-profit foundations, and the change in the circular investment guidelines appear to have been initiatives by Kim Sang-jo.

We cannot be sure how *chaebol* reform will be approached going forward, but we can find clues in a presentation given by Kim Sang-jo on *chaebol* reform strategies and priorities on January 23, 2017, when he was still a professor at Hansung University. He was invited to participate in a joint

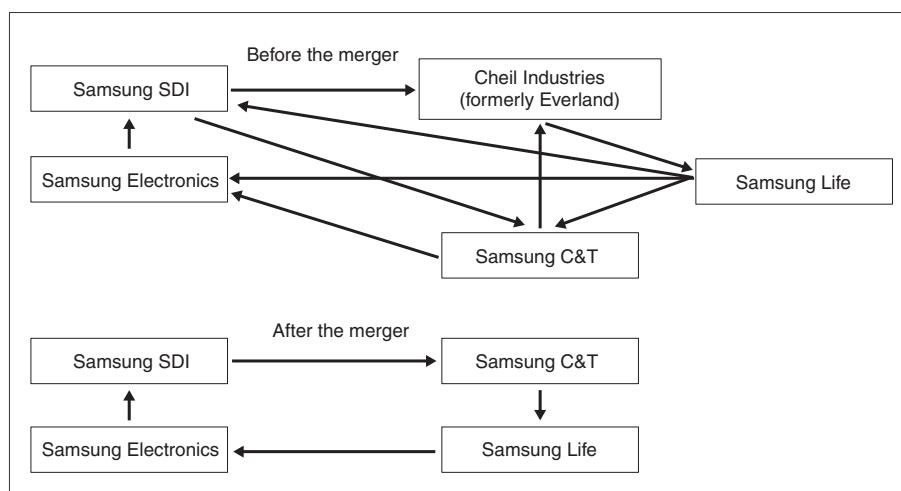
current affairs debate at a policy research institute run by three opposition parties.

In Part 2 of his presentation, which followed his introductory remarks, Kim spoke about the current status of the *chaebol* and priorities for reform. He raised a number of issues, including the concentration of economic power in the hands of the big four conglomerates, the stagnation of lower-ranked *chaebol* groups, and the loss of the entrepreneurial spirit among third-generation *chaebol* leaders.

In Part 3 of the presentation, Kim presented his strategy for successful *chaebol* reform. He touched on the need to approach reform using a method that would enhance the structural rationality of the various regulations that target the *chaebol*. Starting in Part 4, he examined the priorities for reform.

In his analysis of short-term priorities, Kim spoke about changes to the Commercial code, including the introduction of electronic voting and cumulative voting, and separate elections for audit committee members, as well as changes to capital market laws and regulations to revitalize the exercise of voting rights by institutional investors. In Part 5, Kim spoke about medium-term priorities, including the redesign of the market order to

Fig. 10 Changes in Circular Capital Relationships Following the Merger



Notes: Solid arrows indicate capital relationships that form circular shareholdings.
Source: Compiled by JRI from media reports

separate financial capital from industrial capital, and the improvement of the joint-stock company system. In his comments on long-term priorities in Part 6, Kim called for the introduction of a mandatory tender offer system for mergers and acquisitions, the appointment of external directors on the recommendation of workers or minority shareholders, and the establishment of a law governing large corporate groups.

The short- and medium-term priorities identified in this paper are likely to form the core of the *chaebol* reform process for the time being. To improve corporate governance, which is seen as the main short-term priority, Kim has proposed measures to curb the influence of dominant shareholders and ensure that more heed is paid to the views of minority shareholders.

① Changes to the Commercial Act will include the mandating of signed voting, electronic voting⁽³³⁾, and cumulative voting, separate elections for audit committee members, and increased penalties for unfair transactions

With cumulative voting, when voting to select three of four candidates, voters can concentrate their votes instead of voting for each candidate separately, which ensures that the views of majority shareholders are reflected. With this method, there is a greater chance that the wishes of small shareholders will be reflected in the results.

② Amendment of capital market laws and regulations to encourage institutional investors to exercise their shareholder voting rights

Specifically, institutional investors will be required to subscribe to the National Pension Service's Stewardship Code, which is a set of principles for a responsible institutional investor, and to exercise their voting rights on the basis of that code⁽³⁴⁾. The Stewardship Code will be amended.

③ Reinstatement of restrictions on total equity investment, and consideration of restrictions on circular shareholdings

The following proposals have been put forward as medium-term priorities.

① Revision of regulatory structure concerning the separation of financial capital and industrial

capital, including the introduction of stringent prior regulation of major financial groups and a supervisory systems for financial group integration, and the amendment of the insurance industry law

② Improvement of the holding company system, the introduction of a class-action lawsuit system (a system to allow shareholders in parent companies to initiate class-action suits against officers of subsidiaries), the revision of corporate tax law

③ A review of the abolition of the authority of the Fair Trade Commission to initiate prosecutions on its own behalf⁽³⁵⁾

④ The establishment of a fair basis for transactions with subcontractors, and the improvement of SME competitiveness

(2) Future Focal Points and Issues

Although the *chaebol* can be expected to oppose governance reform, which has been identified as a short-term priority, there is a strong possibility that it will be implemented through changes to the Commercial Code. Issues that are likely to become the focus of intense debate include more stringent separation of financial and industrial capital, and the tightening of requirements for holding companies. That is because all of these measures will have a major impact on the ability of the *chaebol* families to control their conglomerates.

The separation of financial and industrial capital minimizes the impact on the economy as a whole, including the financial system, when a *chaebol's* financial position deteriorates⁽³⁶⁾. Many of South Korea's *chaebols* have diversified into such areas as insurance and cards. For example, the Samsung Group includes Samsung Life Insurance, Samsung Fire & Marine Insurance and Samsung Card. Samsung life is not only the biggest company in the life insurance industry, but also occupies an important position in capital relationships within the Samsung Group (see Fig. 4).

One group that caused concern over governance

Column: The Business Operations of the Samsung Group

According to data released by the Fair Trade Commission in May 2017, the Samsung Group is South Korea's biggest corporate group with assets totaling 363 trillion won.

The group really began with the founding of Samsung Trading Co. in 1938 by Lee Byung-chul (1910-1987). In the 1950s, the foundations for the group's growth from the 1960s onwards were built through the success of the Cheil Jedang sugar refinery (spun off from the group in 1993), and Cheil Woolen Fabrics Industries.

When first established in 1969, Samsung Electronics lagged behind Goldstar (the forerunner of LG) in the area of home appliances. Its future growth resulted from its expansion into the area of semiconductor and telecommunications in the second half of the 1970s. South Korea began to develop heavy industries in earnest in the 1970s, which was also the period when the Hyundai Group started to expand. It was during this time that the Samsung Group established Samsung Heavy Industries, Samsung Petrochemical, and other companies.

Samsung also moved into service industries, including department stores, insurance, culture and leisure, and hospitals in the 1960s, and hotels (Hotel Silla) in the 1970s. Deregulation since the 1980s has allowed Samsung to diversify into such areas as credit cards and securities.

Samsung became a global presence under the leadership of Lee Kun-Hee (1942-), who took over following the death of Lee Byung-chul. Under the "new management" concept, which he announced in 1993, he worked to implement quality-focused management reforms, and to improve production processes, product quality, and designs in the group's manufacturing operations. After the currency crisis, some *chaebol* slid into bankruptcy (Daewoo), while others were forced to break up their groups (Hyundai). The Samsung Group weathered the crisis and emerged as number one in terms of assets.

However, Samsung Motors failed because it was started up immediately after the currency crisis. Ultimately it became part of the Renault-Nissan Group.

In the 2000s, Samsung invested profits from its semiconductor business into its flatscreen TV, LCD panel, and mobile telephone businesses. This triggered dramatic growth for Samsung Electronics. Smartphones rapidly became popular and emerged as the mainstay of Samsung's earnings, but the focus subsequently shifted to the semiconductor business with the maturation of the smartphone market. By 2017, Samsung controlled the biggest share of the world market for DRAMs and NAND flash memories.

In recent years, Samsung has divested unprofitable and non-core businesses, while investing its management resources in new businesses with growth potential. It has sold its petrochemical and defense businesses to Hanwha and Lotte, and its printer business to the U.S. company HP. At the same time, it aggressively established business operations in such areas as biopharmaceuticals and electrical components. In 2017, Samsung acquired the American automotive parts company Harman.

While the Samsung Group has become a dominant presence in South Korea, there is growing concern about a number of issues, including the lack of a new growth engine to replace semiconductors, and the group structure in the post-Lee Kun-Hee era. The leading candidate to succeed Lee Kun-Hee is Lee Jae-yong, the Vice Chairman of Samsung Electronics. However, he was arrested and placed in custody in connection with the political interference scandal involving Choi Soon-sil. Lee Kun-Hee's eldest daughter, Lee Boo-jin, is CEO of Hotel Silla, and his second daughter, Lee Seo-hyun, heads Samsung C&T's fashion division.

As pressure mounts for *chaebol* reform, there will be intense interest in the types of reforms that Samsung implements.

issues was Lotte, which switched to a holding company structure in October 2017. Businesses were divided into investment companies and business companies and organized into four groups under Lotte Confectionery, Lotte Shopping, Lotte Chilsung Beverage, and Lotte Food. The investment division of Lotte Confectionery then absorbed the investment divisions of the other three companies to form a holding company. While these changes constituted a step forward toward the improvement of governance, there are still 13 instances of circular capital relationships (compared with 50 before the establishment of the holding company).

The fact that the Samsung Group has not switched to a holding company structure is linked to the important position of Samsung Life in the group's circular capital relationships. The Monopoly Regulation and Fair Trade Act (MRFTA) prohibits general holding companies from owning shares in domestic finance companies, while financial holding companies are not allowed to hold shares in domestic non-financial companies. This means if Samsung were to split Samsung C&T into investment and business companies and switch to a vertical capital structure in which the investment company would own shares in Samsung Electronics, Samsung Electro-Mechanics, and Samsung SDI, it would need to separate Samsung Life from this structure and turn it into a financial holding company that would own shares in affiliated companies in the areas of finance and insurance.

Going forward, the implementation of policies designed to strengthen the separation between financial capital and industrial capital could become a trigger for progress toward the reform of capital structures.

If governance can be improved by simplifying capital structures, South Korea should encourage the transition to holding company structures. However, a number of issues have arisen in recent years. First, *chaebol* that have shifted to holding company structures still have companies outside of those structures. Second, past moves to ease the minimum shareholding requirements for the subsidiaries and sub-subsidiaries of holding compa-

nies⁽³⁷⁾ have had the effect of strengthening overall control. Third, founding families continue to control their groups even after the transition to holding company structures.

For these reasons, some have expressed the view that the rules for holding companies should be toughened, such as by raising the minimum shareholding requirement. Fair Trade Commission Chair Kim Sang-jo of the Fair Trade Commission has said that a change to the corporate tax law to adjust the percentage of profits that are excluded would be more effective than raising the minimum shareholding ratio.

As is apparent from past history, *chaebol* reform will not be an easy task. Because the South Korean economy depends on the *chaebol*, there is likely to be resistance from the *chaebol* when the reform process starts in earnest. Furthermore any attempt to force through reforms could trigger economic turmoil.

However, the founding families are becoming unable to maintain control over their groups without improper trading in securities, and there have been repeated cases of collusion between the *chaebol* and politicians. For these reasons, reform appears to be unavoidable. South Korea needs to build a public consensus on the need for *Chaebol* reform, not only for economic democratization, but also for the reform of the South Korean economy and the normalization of the market economy.

Conclusions

In this article we have considered how *chaebol* reform might be approached under the Moon Jae-in administration, the likely focal points for that reform process, and the problems that could arise. It is not easy to predict the direction that the reform process will take, but reform efforts are likely to focus in the short-term on the improvement of governance, and in the medium-term on stronger separation of financial and industrial capital and the tightening of the rules for holding companies.

Policies adopted by the Moon Jae-in administration under its income-led growth concept, such as raising the minimum wage, moving people

from informal to formal employment, and raising corporate taxes, would all increase the burden on companies. For this reason, the reforms need to be introduced gradually and in a predictable form.

To ensure the success of the *chaebol* reform process, the government also needs to encourage the *chaebol* to carry out reforms voluntarily. From this perspective, it will be interesting to monitor future actions by the big four groups, including Samsung and Hyundai Motors.

End Notes

1. During the presidential election, Kim Sang-jo worked with the Democratic Party's central campaign committee to draft the party's economic democratization policy, including *chaebol* reform. This policy was reflected in pledges made by Moon Jae-in during the election campaign.
2. People's Solidarity for Participatory Democracy (PSPD, full name: Citizens' Solidarity for Participatory Democracy and Human Rights) was founded in September 1994. It has monitored the exercise of government power, made specific policy recommendations, and organized practical grass-root campaigns based on its perspective that all citizens need to participate actively in all areas of life as members of a democratic society. On the economic front, PSPD has worked to achieve economic democratization (including *chaebol* reform) by actively organizing minority shareholder movements, including statements at shareholder meetings, and lawsuits. Academics, including Professor Jang Ha-sung of Korea University and Kim Sang-jo of Hamsung University, are actively involved in the group. Kim Sang-jo led a *chaebol* monitoring team established within PSPD and was also chief of its Economic Reform Center. In 2006, the Economic Reform Center separated from PSPD as Solidarity for Economic Reform. For further information about developments relating to PSPD, see Isao Yanagimachi [2009].
3. Unable to gain opposition agreement to the appointment of Kim Sang-jo through the confirmation of a report from a hearing on the appointment, the President eventually appointed him on June 13 despite protests from the opposition.

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4. For further details on the 100-day plan for employment, see Hidehiko Mukoyama [2017a].
 5. For further details, see “New Administration’s Economic Policies Paradigm Shifted For Sustainable Growth” [July 27, 2017], which is the English version of “새정부 경제 정책방향—경제 패러다임의”[July 25, 2017], released by South Korea’s Ministry of Strategy and Finance (기획재정부).
 6. Article 54 (2) of South Korea’s constitution states, The Executive shall formulate the budget bill for each fiscal year and submit it to the National Assembly within ninety days before the beginning of a fiscal year. The National Assembly shall decide upon it within thirty days before the beginning of the fiscal year. However, on this occasion the statutory deadline (December 2) was missed due to a clash between the government and the opposition over the increase in the number of civil servants. In the end, the number of additional civil service jobs to be created was reduced from the original target of 12,221 to 9,475.
 7. The chairman of the committee, Chang Byung-gyu, is chairman of the board of directors at Bluehole (a game development company), and is an information technology expert with considerable entrepreneurial experience.
 8. For further information on the “creative economy” initiatives of the Park Geun-hye government and movements relating to the Pangyo Techno Valley project, see Hidehiko Mukoyama [2017b].
 9. *The Korea Times*, [interview] “*Chaebol* urged to institute ‘self-reform’”, September 1, 2017.
 10. 매일경제 (Maeil Business Newspaper) November 3, 2017
 11. According to the *Korea Times* (December 15, 2017), Kim Sang-jo commented during a media conference on December 14 that while the big four *chaebol* were each experiencing different structural problems, they certainly knew what needed to be done, and that he was pushing them to take those steps. Mr. Kim also indicated that the root cause of Samsung’s problems was the relationship between Samsung Electronics and Samsung Life, which is Samsung Electronic’s largest shareholder.
 12. Under amendments to the MRFTA in September 2016, the total asset criterion was raised to 10 trillion won or higher, and government corporations were excluded. In September 2017, the Fair Trade Commission designated 26 groups (including Naver and Nexon) as “quasi-large corporate groups.”
 13. 공정 거래 위원회 (Fair Trade Commission), 3 개 상호 출자 제한 기업 집단 지정, May 1, 2017.
 14. In 2008 the corporate tax rate was lowered from 25% to 22%. However, the 25% rate was reinstated in 2018 as part of tax reforms by the Moon Jae-in administration.
 15. In recent years, founding families have caused significant management problems. In the fall of 2016, South Korea’s biggest shipping company, Hanjin Shipping, collapsed. A downturn in shipping demand was a key factor, but this was aggravated by the failure of business strategies, including a substantial increase in the company’s fleet and the signing expensive long-term charter agreements during the boom. These decisions appear to have been influenced by the involvement of the wife of Hanjin chairman Cho.

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16. According to Chi Tong-uk, the ability to keep secrets was vital when doing business in the confused and disorderly environment of the postwar era, when dishonesty was rife. For this reason, business owners tended to employ trusted family members. For further details, see Chi Tong-uk [2001], page 38.
 17. Toshiyuki Endo [2014], page 327.
 18. The whistleblower who exposed this situation provides a detailed account in Kim Yong-chul [2012]. It came to light that Samsung's structural adjustment headquarters had formulated an intricate plan in relation to the inheritance of management rights by Lee Jae-Yong. This plan involved the purchase of shares in unlisted companies, followed by their sale after the companies were listed. Kim Yong-chul also provides a very interesting description of Samsung's lobbying activities (including some targeting prosecutors), as well as its efforts to control the media.
 19. For further information about the problems surrounding the third generation of *chaebol* founding families, see 홍성추 지음 [2016].
 20. The so-called "bun fight" first became an issue during the Lee Myung-bak administration. The involvement of third-generation members of *chaebol* founding families in the bakery business drew criticism because of the resulting pressure on the business operations of SMEs. Third-generation family members involved in the bakery businesses include the eldest daughter of Chairman Lee Kun-hee of Samsung, the eldest daughter of Chairman Chung Mong-koo of the Hyundai Motor Group, and the granddaughter of Lotte Group founder Shin Kyuk-ho.
 21. North Korea's leadership in industrialization resulted from the construction of power plants, fertilizer factories, steel mills, and other facilities in the resource-rich North when it was under Japanese rule.
 22. South Korea formed a government-controlled financial system, under which banks were strongly influenced by the government when making decisions about the allocation of funds and the appointment of executives.
 23. The *chaebol* increasingly took advantage of the fact that indirect cross-shareholding was still permitted to create structures through which they could control their entire groups.
 24. The total asset threshold was raised from 5 trillion won to its present level of 10 trillion won when the MRFTA enforcement order was amended in September 2016.

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25. This political declaration was made by Roh Tae-woo, a presidential candidate (then a member of the Democratic Justice Party representative committee). The main points in the declaration were ① a constitutional amendment, subject to the agreement of the ruling and opposition parties, providing for the direct election of the president, which would lead to a peaceful change of government in February 1988, ② amendments to the presidential election law to ensure fair elections, ③ an amnesty for political prisoners associated with the democratization movement, including Kim Dae-jung, and the restoration of their rights, ④ the improvement of human rights, including a comprehensive expansion of the rights *habeas corpus*, ⑤ measures to guarantee and strengthen freedom of speech, including the abolition of the Basic Press Law, ⑥ the provision of local autonomy, and the liberalization of education, ⑦ the creation of an environment for dialogue and compromise through the provision of guarantees for political party activities, and ⑧ the creation of a community based on mutual trust through social clean-up measures, the eradication of baseless rumors, and the elimination of parochial sentiment.
 26. However, the government continued to maintain a certain amount of influence over executive appointments and lending.
 27. Measures to improve corporate governance included the introduction of cumulative voting, which facilitates the reflection of minority shareholders' views in director appointments and other decisions, as part of amendments to the Commercial Code in December 1998. However, provisions were added to the company articles of listed companies to allow this type of voting to be excluded, and few companies have adopted the systems. The People's Solidarity for Participatory Democracy is calling for the system to be made compulsory.
 28. However, the problem remained because companies used various methods to avoid reducing debt, such as the issuance of shares that were then purchased by group companies.
 29. Endo [2012] suggests that LG and SK switched to holding company structures because they could not successfully form circular share ownership relationships.
 30. The income and employment environment deteriorated after the currency crisis. Of particular significance was the growth of informal employment. The total fertility rate fell rapidly as a result, reaching 1.08 in 2005. It rose moderately in the following years, but at 1.17 in 2016, it is still lower than Japan's fertility rate.
 31. 공정거래위원회 (Fair Trade Commission), 합병 관련 순환출자 가이드라인 개정, December 21, 2017
 32. The capital structure of the Samsung Group is like a complex spider's web. See Endo [2012], P.38 for an analysis of the structure as it was in 2012.
 33. According to the February 2, 2018 edition of the *Nihon Keizai Shinbun*, the SK Group plans to introduce electronic voting this year.
 34. The emphasis on the Stewardship Code reflects the fact that the National Pension Service consented to the merger between Samsung C&T and Cheil Industries at the special general meeting of shareholders' called by Samsung C&T in July 2015.

35. Amendments to the Monopoly Regulation and Fair Trade Act (MRFTA) in July 2013 delegated the authority to seek prosecutions to the Board of Audit and Inspection, Small and Medium Business Administration, as well as the Supreme Prosecutor. It also abolished the right of the Fair Trade Commission to seek prosecutions on its own behalf, since it was now required to submit charges to the Supreme Prosecutor in all cases in which it received requests for prosecution from parties qualified to seek prosecutions.
36. Professor Park Sang-in believes that South Korea can learn from Israel's example in relation to conglomerate reform (박상인 [2017a], [2017b]). For decades, around 20 conglomerates have dominated finance, telecommunications, retailing, energy and other sectors. There was concern that if one of these conglomerates were to experience financial problems, there would be serious consequences for entire economy, including the financial system. For this reason, a number of changes have been introduced in recent years, including the improvement of corporate ownership and control structures, more stringent separation of financial and industrial capital, and limits on the concentration of economic power.
37. The Monopoly Regulation and Fair Trade Act currently prohibit holding companies from holding less than 40% of shares in subsidiaries (20% if the subsidiary is a listed company, a joint venture, or the subsidiary of a venture holding company). When holding companies were legalized in 1999, the ratios were 50% and 30% respectively.

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