



# Keiretsu and Chaebol

Econ 3006 Asia-Pacific Economies

# Understanding Economic Systems in Japan and Korea

Keiretsu



Chaebol



# Your Impressions about Keiretsu/Chaebol?



Reborn Rich



Parasite



Lee Jae-yong

# Mixed Feelings

Three inevitables  
in Korea: Death;  
Tax; Samsung

Passing  
Samsung SAT is  
ticket to South  
Korea good life  
(US Today 2016)

- Every six months, some **100,000** Koreans swarm campus test centers for a shot at Samsung glory
- About 7,000 pass and **4,000** get jobs after this rigorous sitting that includes math, science, reasoning, and until recently, a bewildering section on obscure Chinese characters

South Korea hit  
by strikes over  
lack of chaebol  
reform (FT 2018)



# Road Map

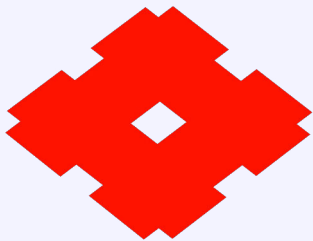
- ① What are Keiretsu and Chaebol and how did they start?
- ② Their benefits, costs, and challenges
- ③ Their impacts on Japanese and Korean economies

# Zaibatsu

Japanese: financial clique

Industrial and financial vertically integrated business conglomerates in the Empire of Japan, at the heart of economic and industrial activity within the Empire of Japan

Sumitomo



Mitsui



Mitsubishi



Yasuda



Details for individual Zaibatsu: <https://www.sjsu.edu/faculty/watkins/zaibatsu.htm>

# Zaibatsu and Japanese Industrialization

- Each zaibatsu is organized around a single family
- Economic:
  - operate companies in all the major areas
  - own banks
- Political:
  - used their contacts in the government to secure monopolies and subsidies
  - helped to finance strategic semiofficial enterprises in Japan and abroad



By 1937, Big Four directly controlled 1/3 Japanese bank deposits, 1/3 foreign trade, 1/2 Japan's shipbuilding and maritime shipping, and most of the heavy industries in Japan

# From Zaibatsu to Keiretsu

## Crony Capitalism

Businesses profit from a close relationship with state power

Anti-competitive regulatory environment, direct government largesse, and/or corruption

The role of crony capitalism in industrialization?

## Postwar dissolution

Closed connections with Japanese military

16 zaibatsu were targeted for complete dissolution; 26 more for reorganization

Incomplete dissolution: US wanted to reindustrialize Japan as a bulwark against communism in Asia



# 系列, keiretsu

## Keiretsu

Japanese:  
series/system

A set of loosely  
connected firms with  
interlocking business  
relationships and  
shareholdings

Replace the zaibatsu  
system that was  
dissolved following  
WWII

Important forces in Japan's economy

# Horizontal Keiretsu

Bank-centered cross-shareholding company grouping

Big Six: Mitsui, Mitsubishi, Sumitomo; DKB, Fuyo, Sanyo

Peaked around 1988: over half of the value in the Japanese stock market consisted of cross-shareholdings

## Equity ties

- Group holdings 23-42%

## Banking ties

- Japanese firms rely heavily on bank financing

## Personnel ties

- Presidents' concil: Shacho-Kai

CHEMICAL

 MITSUBISHI PLASTICS

MITSUBISHI

 MITSUBISHI RAYON

Metal

 **MITSUBISHI**  
MITSUBISHI MATERIALS

 MITSUBISHI ALUMINUM CO.,LTD.

Lideres del keiretsu

  
Mitsubishi



Electrónica y maquinaria

 **MITSUBISHI  
ELECTRIC**



# Horizontal Keiretsu: Alliance Capitalism

Benefits

Costs

# Vertical Keiretsu

Link suppliers, manufacturers, and distributors of one industry in the context of scarce financing

A core manufacturing firm and its key suppliers

e.g. Toyota, Toshiba, and Nissan

## Equity ties

- Substantial holdings of core firms in affiliated suppliers
- Pyramidal structure

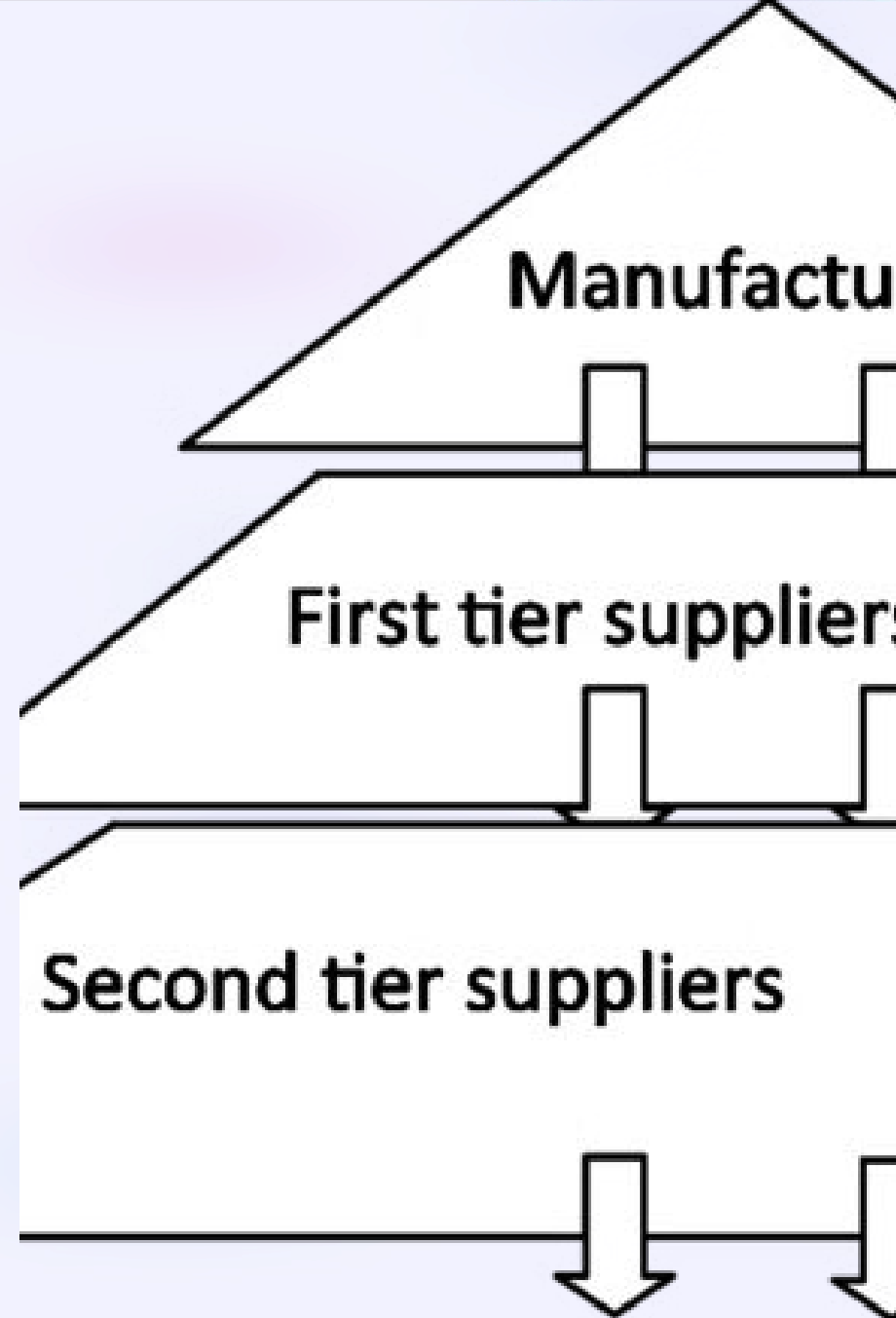
## Transactional ties

- Closely correlated with equity ties
- Stronger control motive for critical suppliers

# Vertical Keiretsu: Industrial Clusters

Benefits

Costs



# Korean Chaebol

- ① Korean: wealthy clique
- ② Large industrial Korean conglomerate run and controlled by a family
- ③ Typically have subsidiaries across diverse industries
- ④ Rely on close cooperation with the government for their success

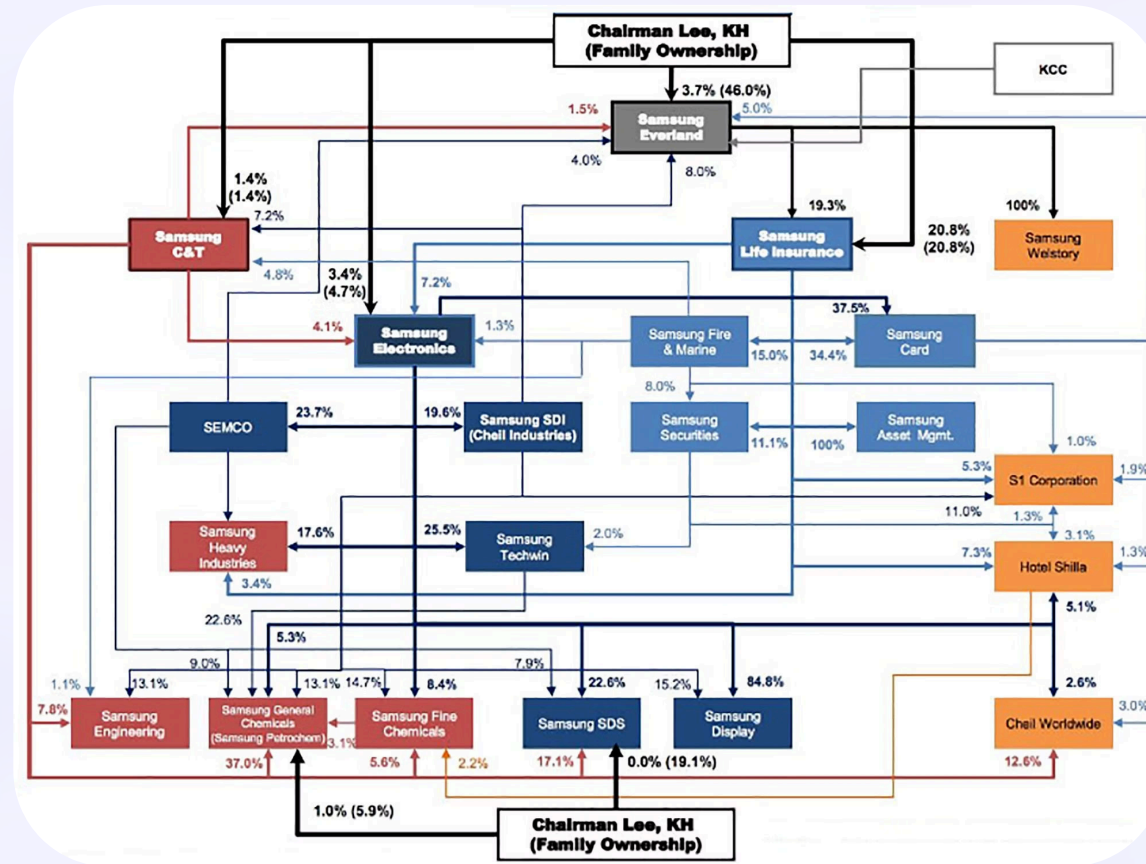
**SAMSUNG**



# Chaebols in the Korean Economy

In 2021, the revenue of the **ten** largest chaebols in Korea accounted for nearly **60%** of the country's GDP

**Samsung 22%**



# Chaebol vs Keiretsu

- ① Larger in the aggregate economies
- ② Politically more influential
- ③ Faster emergence and expansion





# The rise of Chaebol: Samsung's Story



**Lee Byung-chul (1910-1987)**

- Founder of the Samsung Group
- “Venture God”

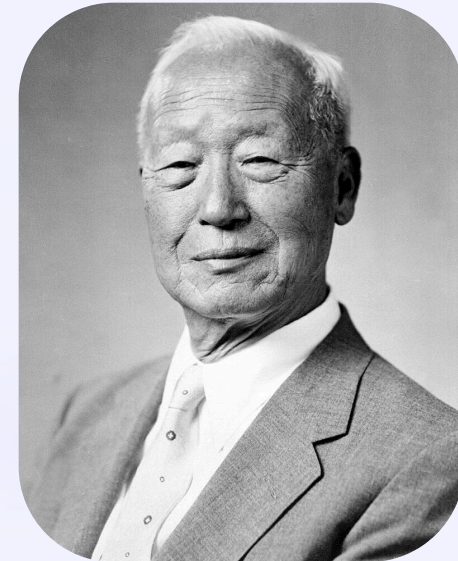
## Early Ventures

- ① 1936-1937: Rice mill + Transport company + Purchasing land by bank credit
- ② 1938-1941: Samsung Trading Co. (Export Korean fruit and seafood to China)
- ③ 1948-1950: Samsung C&T (Trading company, supported by President Syngman Rhee)

# The rise of Chaebol: Samsung's Story

## Post Korean War

- ① 1953 Sugar: CJ group
- ② 1954 Textile and clothing: Cheil Industry
- ③ 1958 Bank: Commercial Bank of Korea



Syngman Rhee  
(Presidency 1948–  
1960)

# The rise of Chaebol: Samsung's Story

## Park Chung Hee's Presidency (1962-1979)



- ① Seized 11 entrepreneurs for illegal funding, including the vice president of Samsung
- ② Lee Byung-chul wrote a letter to Park Chung Hee, seeking cooperation with the new government
- ③ Lee Byung-chul was forced to hand over the three banks to the state

# The rise of Chaebol: Samsung's Story

## Park Chung Hee's Presidency (1962-1979)

### Economic Policies

First Five Year Plan (1962-1966)

Special industrial development zone

Export-oriented industrialization

Investment in infrastructure

Government-controlled financial system

Subsidies and credits to Chaebols

### Take Japan as an example

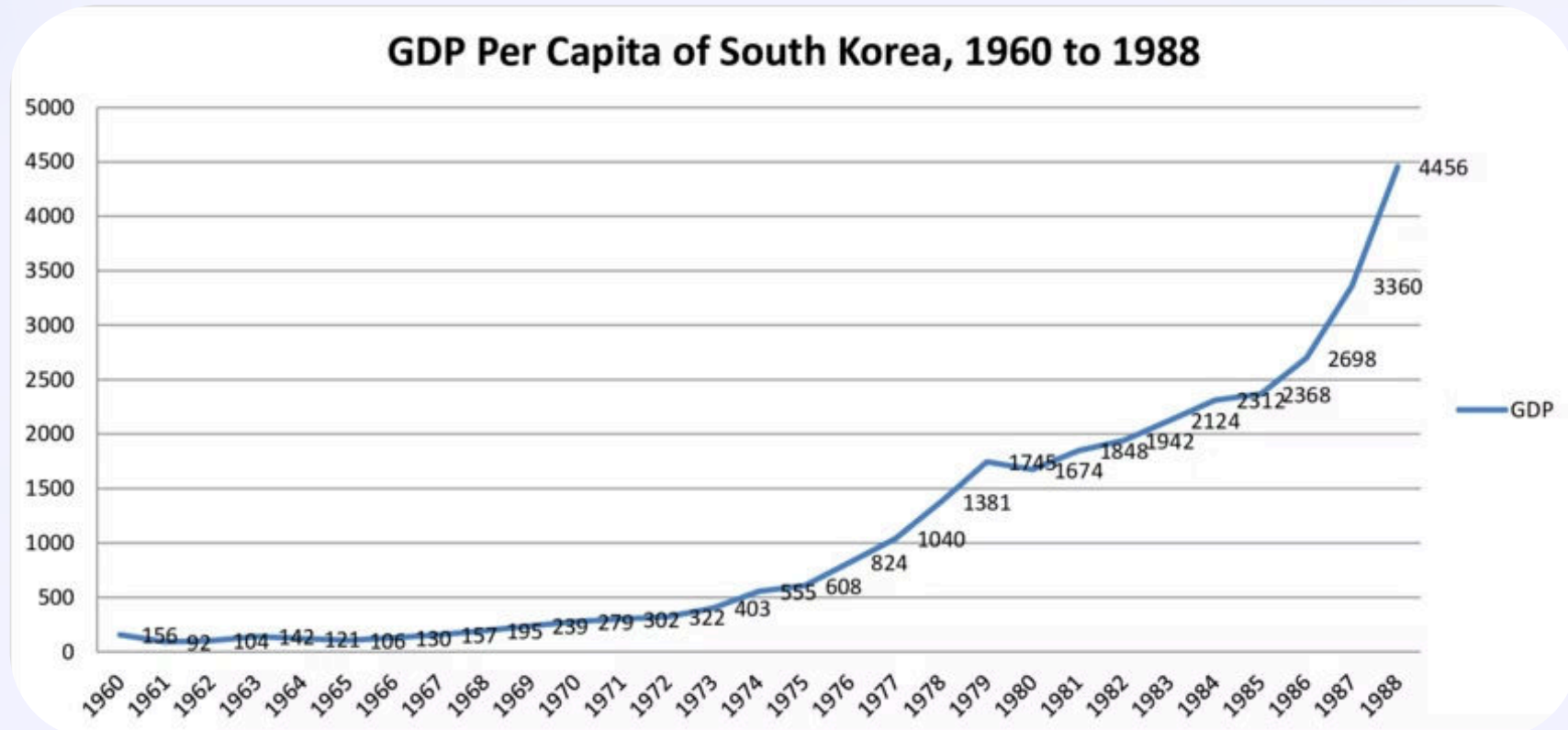
- ① MITI → the Ministry of Trade and Industry (MTI) and the Economic Planning Board (EPB)
- ② Keiretsu → Chaebol

# The rise of Chaebol: Samsung's Story

## Park Chung Hee's Presidency (1962-1979)

### Samsung Empire

- ① Fertilier
- ② TV station
- ③ News paper
- ④ Insurance
- ⑤ Department store
- ⑥ Real estate
- ⑦ Univeristies
- ⑧ Hospitals



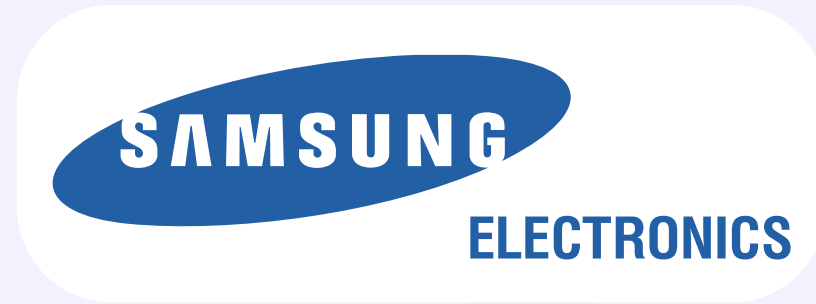
# The rise of Chaebol: Samsung's Story

## All-in Semiconductor

### Semiconductor industry

- Capital intensive
- Fast-evolving technologies
- Winner-take-all

In 1974, Lee Byung-Chull and his son, Lee Kun-Hee funded a stake in Hankook Semiconductor, **using money from their own pockets** → Samsung electronics



Again, take Japan as an example

- Government-encouraged VLSI hubs
- Funding from chaebols and government
- Attract semiconductor experts from Japan and the U.S.

# Chaebol and Industrial Policies in Korea

## Export-Oriented Industrialization

- Develop CA for more sophisticated industries
- Government-Chaebol cooperation
- Fill the missing links in GVCs
- **Heavy and Chemical Industry (HCI) drive (1973)**
  - 6 industries: Iron and steel; nonferrous metals; shipbuilding; machinery; electronics; chemicals
  - National Investment Fund (NIF)
  - Direct plan to secure scale economies
  - Promote global competitiveness
- **IT industries (1980s)**
  - Government works in collaboration with research institute and private companies
  - National Backbone Information System
  - Fill weak links in GVCs



# Challenge: Successors?



Lee Maeng-hee



Lee Chang-hee



Lee Kun-hee



# Keiretsu and Chaebol on Economic Growth: Positive

## Market failures

- Innovation and scale externalities
- Coordination failure

## Catch-up

- Learning, imitating, and copying
- Attract global expertise



# Keiretsu and Chaebol on Economic Growth: Negative

## Lack of competition

- Market power and monopoly
- Frontier innovation

## Inequality

- Social stratification
- Strengthened by political influences



# Summary

- ① Crony capitalism: deeply rooted in the Japanese/Korean catch-up strategies and industrial policies
- ② Stability/efficiency/coordination vs. Monopoly/inequality
- ③ Challenge: Successors
- ④ What are the implications of Keiretsu and Chaebol for foreign firms and investors?