

The Origins of Korean *Chaebols* and their Roots in the Korean War

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· **Keyword:** Korean *Chaebols*, Korean War, Syngman Rhee, US Aid Policy toward Korea, Continuity Thesis, Kyungbang Ltd

【ABSTRACT】

The driving thesis behind this study is to place the formation of Korean *Chaebols* squarely in the 1950s, corresponding directly with the outbreak and conduct of the Korean War. The Korean War provided enough new market demand for the emersion of Korea's *Chaebols*. During and after the War, disposal of ex-Japanese enterprises, relief funds, government reserved dollar allocations and bank finance loans provided the grounds for the formation of *Chaebols*. This study emphasizes the need to couple the *Chaebols'* rent seeking behaviors with their divergent

strategies and abilities to utilize and maximize productivity. It substantiates, from case studies, that contrary to conventional wisdom, political factors are neither the sole nor majority cause for the growth of these *Chaebols*; rather, their growth owes largely to government's economic policies and their economic strategy and market adaptability. In short, the emergence of Korean *Chaebols* originates in the 1950s in the War's aftermath. And the developmental trajectory of *Chaebols* is characterized by an economic factor-pulled continuity rather than a political factor-pushed discontinuity.

I. Introduction: The Origins of Korean *Chaebols* in a Historical Perspective

The Korean War destroyed Korea's industrial foundation and paralyzed the nation's economic policy. The War, however, also provided for new entrepreneurial enterprises, namely the catalyst for the coming on the scene of Korean *Chaebols*. The driving thesis behind this work is to place the formation of Korean *Chaebols* squarely in the 1950s, corresponding directly with the outbreak and conduct of the Korean War. This contrasts with a wide swath of literature arguing that the Korean *Chaebols* were largely a continuation on earlier works and infrastructures, social and physical, held over from the Japanese colonial era.¹⁾

1) For concurring arguments on the continuity thesis, see Carter J. Eckert, *Offspring of Empire: The Koch'ang Kims and the Colonial Origins of Korean Capitalism, 1876-1945* (Seattle and London: University of Washington Press, 1991); Bruce Cummings, *The Origins of the Korean War I: Liberation and the Emergence of Separate Regimes, 1945-1947* (New Jersey: Princeton University Press, 1981); Dennis L. McNamara, *The Colonial Origins of Korean Enterprises, 1910-1945* (Cambridge: Cambridge University Press, 1990); Satoru Nakamura and Byung-jik Ahn, *Chosen Kinndaino Keizakouzo* [Economic Structure of Modern Korea] (Tokyo: Nippon Hyoronnsa, 1990); Atu Kohli, "Where does High Growth Political Economics Come From? The Japanese Lineage of Korea's Developmental State," *World Development*, vol.22, No.9 (September, 1994); and Seok-kon Cho, "Sutalronkwa Keundaehwaronul Numeoseo [Beyond the Usurpation and Modernization]," *Chanjakkwa Beepyung* [Creating and Critique], vol.96 (Summer, 1997). And for opposing views, see Stephen Haggard, David Kang and Chung-in Moon, "Japanese Colonialism and Korean Development: A Critique," *World Development*, vol.25, No.6 (June, 1997); Hong-yung Lee, "Mi Hakkei Oryu Beepan [Critique on the U.S. Interpretation about Japanese-Colonialism]," *Shindonga* [Dong-A Monthly] (November, 1997); and Tae-hun Chung, "Sutalronui Sokryuhwasoke Sarajin Shikminji [Vanishing Colony in the Debate of Vulgar Usurpation]," *Chanjakkwa Beepyung* [Creating and Critique], vol.97 (Fall, 1997).

Substantive research into 1950s Korea industry and the formation of industrial firms is wanting. Researchers looking into the early 1950s have tended to focus on the destruction of the Korean economy during the Korean War and then continued their research with the development of the Korean economy after the 1960s.

For comparative purposes, research correlating the effects of the Korean War shares similar characteristic assumptions, namely: 1) the emergence of Korean *Chaebols* was a passive venture, hinging largely on the *Chaebols* collusion with the Liberal Party of President Syngman Rhee and the breakdown and disposal of ex-Japanese colonial enterprises; 2) from the continuity thesis of the Japanese colonization, the period of 1950s are largely ignored in the developmental trajectory of Korean *Chaebols* and 3) with respects to the relations between the Syngman Rhee administration and the United States (US), the US' role in the Korean economy often is overemphasized without a empirical analysis on role of Korean sovereign state.²⁾

These working assumptions, however, are limited with respects to analyzing the formation of *Chaebols*, after the War, as *Chaebols* business' behavior was characteristically active, for lack of a better word. To begin, since Korean *Chaebols* got their business starts in international trade and manufacturing, it is hard to facilitate the argument that these enterprises were simply extensions of enterprises spawned in the Japanese colonial era. As such, we must turn to Korea's domestic political economy for answers, namely the Syngman Rhee administration's policies and relations with the US government, for *Chaebols* continuously sought out opportunities arising from the tension and cooperation between the two countries.

I will first look at the size and scope of the War's destruction as well as the new market demands and business opportunities arising from the destruction. As this research will evidence, *Chaebols* started to form precisely in the sectors where demand was the highest. I also will take into account the disposal of ex-Japanese enterprises, US economic assistance and analyze Korea's exchange rate policy and inflation levels in regards to the flow of wealth among the enterprises. Accordingly, I will analyze Syngman Rhee's administrative policies, which made such flows possible, to explain the rise and fall of *Chaebols*. Finally, we will categorize the development of *Chaebols* by type using case studies into the 1950s.

For data collection, we relied on legal documents from Korea's Ministry of Finance, documents on the accumulation of wealth from the documents by Park Chung-hee's military junta,³⁾ historical records of banks and *Chaebols*, memories by relevant actors,

2) The US government helped to regulate the exchanged rates and dollar aid through Korea-U.S. Combined Economic Board.

US diplomatic documents (Foreign Relations of United States), and other research sources on the 1950s.⁴⁾

II. New Demand and Business Practice during the Korean War

Most of Korea's industrial facilities were damaged or destroyed during the Korean War. The Korean economy fell into a state of paralysis as a result. In the first 3 months after North Korea's invasion, industrial complexes centered in areas of Seoul, Kyunggi, and Kangwon province were damaged heavily. Table 1 gives amounts of the damage to Korean industries as of August 1951.

<Table 1> Damaged Manufacturing Industries (as of August 1951)

	Total damaged amount (US\$ 1,000)	Total damaged facilities (%)
Metallic	653	26
Machinery	793	35
Chemical	15,412	33
Textile	92,722	64
Ceramic	1,644	40
Food	1,594	20
Printing	2,444	75

Source : Korea Development Bank, *History of Korean Industry and Economy for Ten Years (1945-1955)*, pp.996-997

Printing facilities suffered the most damage with 75% being damaged to one extent or another. In terms of total amount of damages, textiles suffered the most, losing about \$93 million along with 64% of facilities damaged. In sum, all 7 industries suffered nearly close \$115 million in destruction and damage, and loss of raw materials and products. These figures, however, do not account for smaller factories that were unaccounted for so the figure is most likely higher.⁵⁾ In November 1950, there was a plan to move all

3) Military Junta, *Kunshyeokmyeongsa* [History of Military Revolutions] (1963); Military Junta, *Kunshyeokmyeong Jaepansa* [History of Legal Cases Concerning Military Revolutions] (1962).

4) There are many difficulties regarding data collection on this topic. Therefore, this study is limited to reliance on data from the previous research papers: Lee Dae-Keun, *Korean War and the Capital Accumulation of 1950s* (Ggachi, 1987); Kong Jae-Wook, *1950's Korean Capitalist* (Baeksan Seodang, 1993); Kim Ki-Won, *Economic Structure in times of US military governance: Focus on ex-Japanese Enterprises' Actions and Voluntary Labor Rights Movement* (Pureunsan, 1990); Kim Yang-hwa, "Capital Accumulation in 1950's Manufacturing Industry", *Economy and Society* (Spring 1991); Kim Dong-Wook, "1940s-1950s Korean Inflation and Stabilization," PhD Dissertation, Department of Economics, Yonsei University (1994).

industrial complexes to Jeju Island and other southern parts of Korea; but since the damage caused when the North attacked Seoul was so quick and complete, the plan was never realized.

Still, while it is accurate to say that the War caused extensive damage to particular industries and businesses, the heaviest damage was inflicted within the first 3 months of the War's outbreak. At this time, many businesses were ex-Japanese enterprises, which had yet to be disposed of after Korea's independence from Japan (August 1945). In December 1949, The Korean National Assembly passed and put into place the "Act on Ex-Japanese Assets:"⁶⁾ but, public purchases of these assets were still considerably low prior to the cease-fire agreement—as of March 1953 only 21 thousand among a total of 292 thousand (or 7% percent) of these enterprises had their assets disposed.⁷⁾

Naturally, the War drastically affected Korea's macro-economy. There were large runs on bank savings, and the amount of currency in circulation was increased to help finance military expenditures. Worse still, prices increased rapidly owing to transportation and logistic difficulties, destruction of manufacturing lines, paralysis in the distribution of goods and services, and sharp drops in production and circulation. Notably, the price of consumer products like food and clothing sky rocketed. As table 2 illustrates, the amount currency in circulation rose by 11 times between December 1948 and December 1951; retail prices rose by 15 times during the same period; and, rice prices rose by 17 times. Increases in the amount of currency in circulation after the start of the War were not invested in production but led directly to cornering and hoarding of consumer products and caused price inflation. Additionally, funds from the US went to cover labor costs and consumer goods purchases, deteriorating macroeconomic conditions further.

5) According to ECA studies, in October 1950, it would require at least \$46 million to recover Korea's manufacturing industries back to the pre-war conditions. Korea Development Bank, *History of Korean Industry and Economy for Ten Years (1945-1955)*, pp.180-181.

6) Disposal of ex-Japanese enterprises was put into practice through out the war to stabilize inflation caused by the lack of goods, through sales to civilian of ex-Japanese enterprises to encourage industrial complexes to produce goods for war related causes.

7) Ministry of Finance and Economy, *Reflection of banking and finance: The Achievement for Ten Years Since the National Foundation (1958)*, pp.166-167.

〈Table 2〉 Economic Indicators before and after the Korean War

	1948.12	1949.12	1950.12	1951.12	1952.03	1952.08	1952.10
Currency in circulation (1 billion Won)	73.7	130.6	290.5	784.8	904.4	1,169.1	1,274.3
Consumer Price (1947=100, Busan)	168	207	474	3,211	4,862	7,219	6,790
Rice 1 Mal (Won)	1,840	1,988	9,638	35,365	71,580	146,000	127,900
Gold 1 Don (Won)	5,256	7,928	11,501	62,096	86,226	108,000	118,774
Exchange Rate (market value)	740	1,710	3,258	9,119	13,572	–	25,600

Source : Kim Dong-Wook, "1940s-1950s Korean Inflation and Stabilization," Ph.D. Dissertation, Department of Economics, Yonsei University (1994), p.124

Conversely, this destruction and inflation created new demand in the market. Companies produced and manufactured according to this new demand. The government's reconstruction policies, and with it development funds, were aimed at restoring the industry heaviest hit from the War, in this case the textile industry. This policy line, in turn, created new business opportunities. During and after the War, sharp increase of the "three whites: cotton, sugar, mill" demands served as foundation in *Chaebols'* rapid growth.

During the War, normal business operation was impossible. To begin, most factories were destroyed, and it was difficult start new businesses. While it also holds that there was not enough business in practice at this time to sustain *chaebol's* growth. The disposal of ex-Japanese assets, for example, which served as the central foundation for *Chaebols*, was done largely post 1952. Additionally, economic aid, an auxiliary foundation for *Chaebols* growth, was done after 1954. Hence, it is hyperbole to argue that *Chaebols* fully emerged during the War. That is not to argue, however, that there was not rapid growth in war-related industries. Demand for penicillin, medical products, rice, and house-ware goods soared during the War, and with them so to the enterprises active in their manufacturing. Enterprises in these sectors, however, are not considered *chaebols* in the fullest sense of the word. Take, for example, the case of *Kyungbang, Ltd.*, whose total sales neared 394 million Won in 1949 and increased to 3.3 billion Won in 1952. *Kyungbang, Ltd.* like many other large enterprises, lost a cotton mill in Youngdeungpo-District, a dye house in Siheung, a clothing factory in Ssangrim-dong, and a silk mill in Uijeongbu in the earlier stages of the War. *Kyungbang, Ltd* reconstructed their cotton mill in Youngdeungpo-District only after South Korea regained control of Seoul. The Anyang factory of *Kyungbang, Ltd* also was destroyed after accidental bombing from friendly US forces. *Kyungbang, Ltd* relocated raw cotton

not damaged by the bombing to Daegu, constructing a machinery dye house also in Daegu that opened for full operation in the fall of 1953. It was not until in October 1953, after the related nations had signed the armistice, that *Kyungbang, Ltd* completed its first reconstruction plan with the support of UNKRA.⁸⁾

Turning the focus to the Samsung Corporation, which was restarted as Samsung Corporation Ltd. in 1951, Samsung was designated as a foreign currency loan recipient by the Bank of Korea, importing sugar and fertilizer. In January 1952, Samsung increased the amounts up to 6 billion Won, roughly twenty times what it was in 1951, with net profits totaling 2 billion Won. This spike in investments and income owes largely to a lack of supply and increased demand from the War. However, considering Samsung's other subsidiaries, Cheil Sugar and Cheil Industries' established year, June 1953 and September 1954, respectively, the foundation of Samsung as a genuine manufacturing company dates only after the War.⁹⁾ By way of example in the construction industry, Joongang Industry and Hyundai Construction are excellent examples of companies that flourished from the War. They grew fast from domestic orders to build up the nation's infrastructure and housing as well as taking orders from US force in Korea. As we can see from Hyundai construction's Han River bridge restoration in 1957, they, too, emerged when the War was over. The Korean War therefore, served as the defining condition for Chaebols' emergence.

Ⅲ. Economic Events and the Formation of *Chaebols* after the Korean War

1. Disposal of ex-Japanese enterprises and state-owned assets

The disposal of ex-Japanese enterprises along with land reform became the driving factor for the transfer of wealth from landlords to capitalists; thus signaling the fall of the landlords.¹⁰⁾ The disposal of ex-Japanese assets, which began in 1946, peaked between 1951 through 1953, the time of War. Approximately 53.2% (1,097 cases out of 2,061) of the total disposals were done during this period. The size of ex-Japanese

8) Kyungbang Inc. *Kyungbang Seventy Years* (1989), pp.146-161. The Youngdeung-po factory faced many difficulties in restoration due to occupation by British forces during the War. In the case of Kyungbang Bangjick weaving machinery, nearly full recovery was possible by 1959.

9) Samsung Secretariat, *50 Years of Samsung* (1988), pp.105-113.

10) Refer to Kim, Ki-won (1990), for the disposal of ex-Japanese assets by US forces and the results and characteristics of land reform.

assets, however, varies by case; therefore, it is crucial to identify how, when, and to whom the ex-Japanese assets were disposed to better understand the origin and rise of this new capitalist class. State-owned enterprises like Chosun Textile, Korea Textile Industry, Buksam Chemicals, Samhwa Steels, and Tongyang Textile were disposed between 1955 and 1956. Table 3 lists the disposals of ex-Japanese assets in the textile industry.

〈Table 3〉 Disposals of Textile Industry

New Name after disposal	Old Name under Japanese Rule	Name of Ex-Japanese Assets	Year of disposal	Purchaser	Ownership in 1960
Chosun Textile	Chosun Textile Busan Factory	Chosun Textile Busan Factory	1955	Kang Il Mae	Chung Jae Ho
Daejun Textile	Chosun Owu Textile Daejun Factory	Daejun Textile National Corporation	1951	Lee Suk Oh	Chung Jae Ho
Daehan Textile	Gunsi Textile Daegu Factory	Chosun Textile Daegu Factory	1955	Suhl Kyung Dong	Suhl Kyung Dong
Taechang Textile	Chongyun Textile Kyungsung Factory	Korea Textile National Corporation	1956	Baek Nak Seung	Baek Nam Il
Keumsung Textile	Chosun Spinning	Chosun Spinning	1952	Kim Sung Gon	Kim Sung Gon
Junnam Textile	Chongyun Textile Gwangju Factory	Junnam Textile National Corporation	1951	Kim Hyung Nam	Kim Hyung Nam
Tongyang Textile	Tongyang Textile Incheon Factory	Tongyang Textile National Corporation	1955	Suh Jung Ik	Suh Jung Ik
Naeoe Textile	Chosun Textile Daegu Factory	Daegu Underwear National Corporation	1951	Lee Sun Hee	Lee Sun Hee
Hanyoung Textile	Great Japan Textile Kyungsung Factory	Junnam Textile National Corporation Seoul Factory	1952	Park Chan Ju	Lee Sun Hee
Junju Textile	Chosun Mabangik Junju Factory	Chosun Mabangjik Junju Factory	1952	Kim Dae Hee	Choong Ang School
Honghan Textile	Imperial Jaema Incheon Factory	Tongyang Textile National Corporation Hakik Factory	1952	Chang Yong Woon	Park Hong Sik
Taepyung Textile	Tongyang Textile Incheon Factory	Jaeil Textile National Corporation Anyang Factory	1953	Suh Sun Ha	Kim Sung Gon

Source : Kong Jae-wook, "Study of Korean Capitalists in the 1950s," (Baek San Suh Dang, 1993), p.110.

Except for a couple of companies like Kyungbang Ltd., most major companies in the textile industry began as a result of disposal. And the entrepreneurs and businessman

who took possession the disposed assets or management right of the companies are representative of the new capitalist class.

Bank privatization, furthermore, took place in 1957, which directly affected *Chaebol* formation. The Savings Bank, Industrial Bank of Korea, Heungup Bank, Choheung Bank, which were previously state-owned, were privatized, setting the ground for increased shareholders' influence.¹¹⁾

One of the main reasons those who took possession of ex-Japanese assets disposal became the core of a new capitalist elite was the rock bottom price they paid for large sums of capital stock and assets. During the War, the ruling government hastened disposal of ex-Japanese assets to help finance war costs. After the War, due to the lack of appropriate capitalists who wanted to participate in the bid, the government's target price for ex-Japanese assets did not meet the market price. Therefore, receiving disposal itself was considered as a privilege. Additionally, considering the high inflation rate at the time, the longer entrepreneurs took to pay the cost of acquiring these assets, the lower the actual value the government would have received. The bigger the company size, moreover, the larger the gap between the government's targeted price and the market price.

Approximately 40% of major companies in 1950s were composed of the remains of ex-Japanese assets.¹²⁾ Suhl Kyung Dong (Daehan Textile), Baek Nakseung (Taechang Textile), Kim Sunggon (Keumsung Textile), Park Dubyung (Tongyang Beers), and Kim Jonghee (Korean Chemicals) are some of the people benefited from direct disposal. Lee Yanggu (Tongyang Cement) and Chung Jaeho (Daejun Textile) are some of the capitalists received through the third party.

2. Allocation of Relief funds and Exchange Rate Marginal Profit

To receive relief funds from US was quite a privilege in Korea's skewed wartime economy. Inflation, monopoly, price differences, and exchange rate marginal profits from the big difference between official and real rate set a ground for *Chaebols*. Relief funds flew to mid to large companies, reinforcing their efforts to grow bigger. Notably, companies that received US dollars from the Korean government made huge exchange rate marginal profits and accumulated further capital by utilizing the dollars in trading.

11) Lee Byung-Chul, "Hoamjajeon [Autobiography of Hoam]" (Chung Ang Daily, 1986), pp.89-91; Han Gyu Hoon, "Silrok Hangukeunhaeng [A True Record of Bank of Korea]" (Maeil Economic Daily, 1986), pp.215-216.

12) Kong Jae-Wook (1993), p.119.

Although the Korean version of the Marshall Plan continued after the establishment of the new government, it was in August 1953 when the relief funds started to flow in, first under the auspices of the FOA (Foreign Operations Administration, which merged to ICA (International Cooperation Administration) in 1955. Along with this, the UN initiated aid from CRIK (Civil Relief in Korea) and UNKRA (United Nations Korea Reconstruction Agency) was offered. The total amount Korea received from the establishment of the new government until 1960 from the US and the UN was \$2,963 billion. Among which \$1,867 billion (63%) was provided for the reconstruction of Korea after the cease-fire agreement. By 1957, the total amount increased by 54.7% of the total amount of government budget (about 35,003 million Korean Hwan) when we apply the official exchange rate to the equation (\$1=500 Hwan).

〈Table 4〉 US Relief funds to Korea in the 1950s (unit: \$1,000)

	ECA & SEC	PL480	ICA (FOA/MSA)	CRIK	UNKRA
1949	116,590	-	-	-	-
1950	49,330	-	-	9,376	-
1951	31,972	-	-	74,448	122
1952	3,824	-	-	155,534	1,969
1953	232	-	5,571	158,787	29,580
1954	-	-	82,437	50,191	21,297
1955	-	-	205,815	8,711	22,181
1956	-	32,955	271,049	331	22,370
1957	-	45,522	323,267	-	14,103
1958	-	47,896	265,629	-	7,747
1959	-	11,436	208,297	-	2,471
1960	-	19,913	224,236	-	244
1961	-	44,926	156,628	-	-
Total	201,867	202,648	1,743,929	457,378	122,048

Source : Bank of Korea, "Monthly Economic Statistics." Author: Hong Sung Yu, "Korean Economy Capital Accumulation Process," (Asia Research Center, Korea University, 1964), p.278.

During the War, CRIK relief funds went mainly to improve the livelihood of the people. UNKRA relief was channeled to facilities for mining and manufacturing industries, and FOA relief went largely towards industrial facilities and consumer goods, each 34% and 66%. In 1953, Korean Textile Industry Association allocated the UNKRA relief fund totaling \$2.8 million to the textile industry and imported 55,440 spinning machine, which were distributed to Chonmam Textile, Daejon Textile, and Keumsung Textile.¹³⁾

13) Spinners & Weavers Association of Korea, *Banghyeop Sasipnyeonsa* [Forty Years of Spinners & Weavers Association] (1987), p.332.

Meanwhile, US\$ 630,000 from UNKRA was allocated by Korean government to the reconstruction of Samchuk Cement and US\$150,000 was allocated in support for other small and medium enterprises.¹⁴⁾

However, since from the mid-1950s US aid strategy toward Korea began to change from industrial production-focused to consumer goods-focused, Consumer goods and raw materials made up most of relief, mainly the ICA relief. The so-called “3 white industries” started from the provided relief supplies. Raw cotton used in the textile industries came mostly from US relief as well as raw sugar used in the sugar manufacturing industries. There was a big price difference between governments allocated relief goods and imported goods; companies who received the allocated relief goods from the government rapidly grew.¹⁵⁾ Daehan Yanghwae and Hankuk Glass, for example, are successful cases of state-owned companies becoming conglomerates after the infusion of relief funds. Kim Sung Gon, who constructed Keumsung Textile factory with UNKRA funds in 1954, recorded the following:

The cotton yarn was unimaginably popular. The set amount was sold to the public at an officially fixed price and the rest was up to Keumsung to freely charge for sale; the price was calculated to have enough profit even at the officially fixed price. Therefore, securing larger amounts to be freely priced would ensure higher profit. Bank interest was due in two years, however, due to the high inflation, repayment was of no difficulty. Monetary profits were reinvested to enlarge the size the factory. Furthermore, the postwar recovery was yet to be completed; thus, the demand for the textiles was enormous, and if I could get into the military supply chain, demand would be explosive.¹⁶⁾

The Korean government's US dollar reserves held from UN loan repayments or from revenues gained by exporting tungsten also served as important factors in the growth of *Chaebols*. The exchange rate applied to civilian importers generally was the “official” fixed exchange rate, which allowed many firms to reap huge marginal windfalls.

There also is the case of entrepreneurs profiting after taking advantage of the government's loan policies. The government and state banks divided foreign exchange loans into two types: 1) the first were allocated to wholesale and retail traders and

14) UNKRA, *UNKRA Project, Monthly Report*, No.24 (October 8, 1954).

15) Korean Development Bank, Research Department, *Hanguksaneopgyeongjae Sipnyeonsa* [History of Korean Industry and Economy for Ten Years] (1955), p.526.

16) Seong-gok Foundation for Press and Culture, *The life of Seong-gok, Kim Seong-gon* (1995), p.122.

industries demanding raw materials; 2) the second focused exclusively on the import of capital goods. In both cases, loan amounts were rewarded using a formula including historical export records and real rates of consumption for raw materials.¹⁷⁾ The amounts importer's profited by taking advantage of the 'special foreign currency loans' are listed in table 5.

(Table 5) Profits generated by 1950s fixed exchange rate (\$1 million, %)

Year	Total imports	Official EX / Market EX	Actual payment by importers	Profits for importers
1953	345.4	0.40	137.1	208.3
1954	243.3	0.45	108.8	134.5
1955	341.4	0.43	147.7	193.7
1956	386.1	0.56	218.0	168.1
1957	442.2	0.49	216.8	225.4
1958	378.2	0.54	202.5	175.5
1959	303.8	0.64	194.5	109.3
1960	343.5	0.74	254.3	89.2
Average	348.0	0.531	185.0	163.0
Total	2,783.0	-	1,479.7	1,304.2

Source : Jung Ku-Hyun, "Growth Strategies and Management Structures for Korean Companies" (Korean Chamber of Commerce 1987), p.70.

According to the records compiled by illegal accumulation observers under military junta, which were in operation right after May 16, 1961, many companies accumulated wealth by receiving government allocation. For example, Baek Namil's Taechang Textile received about \$5.5 million in government allocation and Ham Changhee of Shinjin Heungup received \$1.04 million in government allocation.¹⁸⁾

3. The Role of the Korea Development Bank and Marginal Interest Rate Profits

Those Korean companies that received ex-Japanese enterprises after their disposal still needed large sums of capital to reconstruct damaged factories in addition to that being provided by the government's reserves or relief funds. Most of the leftover financial support came from counterpart funds for raw materials and industrial reconstruction bonds.¹⁹⁾ Loans from the KDB had comparably lower interest rates than

17) The Editorial Committee, *Thirty Years of Banking and Finance* (1978), p.47.

18) The Investigation Team for Illicit fortune, "Jajinshingojabyeoljaewon [Data on Voluntary Reportings]" (1961). Kim Ki-won (1990), quoted from pp.295-299.

market interest rates. Naturally, then, those companies with access to the KDB's coffers, e.g. those companies with a track record of doing business with the government or those working in strategic industries, were benefiting from the low interest rate policy. In the 1950s, private loan rates hovered near 10% monthly whereas parts of ICA and UNKRA loans through KDB stood at 3% monthly. Near the end of 1957 moreover, KDB's industrial finance loan interest rates were skewed to favor companies borrowing on a grand scale as well as those firms operating in target industries. This also served as a catalyst for particular *Chaebols* to grow rapidly.²⁰⁾

According to Kong Jae-Wook, in the 1950s, 44.9% of major manufacturing companies received large loans from the KDB. As of April 1961, Daehan Heavy Industry had received the most with 6.18 billion Won, and the top 40 companies received a total of 1.13 billion Won.²¹⁾ Notably, major shareholders like Lee Byung-chul of Hanil Bank, Chung Jaeho of Chaeil Bank, and Lee Jungrim of Seoul Bank, received more loans as illustrated in table 6.

(Table 6) Total loan amount and portions funded to 15 capitalists by 7 major banks
(unit: million Won, %)

Date	1953.12	1954.12	1955.12	1956.12	1957.12	1958.12	1959.12	1960.12	1961.5
7 Banks total loan given out	7,466 (100.0)	22,752 (100.0)	59,143 (100.0)	135,123 (100.0)	139,227 (100.0)	156,658 (100.0)	206,878 (100.0)	281,270 (100.0)	295,878 (100.0)
Lee Byung-chul	27 (0.36)	60 (0.26)	693 (1.17)	1,557 (1.15)	1,558 (1.12)	2,162 (1.38)	2,725 (1.32)	4,674 (1.66)	5,326 (1.80)
Chung Jaeho	-	165 (0.73)	706 (1.19)	1,677 (1.24)	1,627 (1.17)	3,631 (2.32)	6,395 (3.09)	7,139 (2.54)	8,472 (2.86)
Lee Jungrim	12 (0.16)	58 (0.25)	43 (0.07)	106 (0.08)	285 (0.20)	1,042 (0.67)	7,583 (3.67)	9,400 (3.34)	9,357 (3.16)
Suhl Kyungdong	22 (0.29)	5 (0.02)	95 (0.16)	57 (0.04)	150 (0.10)	393 (0.25)	1,357 (0.66)	1,620 (0.58)	2,188 (0.74)
Lee Yanggu	-	-	22 (0.04)	71 (0.05)	304 (0.22)	54 (0.03)	600 (0.29)	779 (0.28)	384 (0.13)
Namgung Rhuyn	-	-	-	2 (0.00)	2 (0.00)	5 (0.00)	22 (0.01)	514 (0.18)	461 (0.16)
Choi Taesub	-	-	-	-	66 (0.05)	66 (0.04)	1,908 (0.92)	2,431 (0.86)	2,398 (0.81)

19) The Editorial Committee, *The Ten Year History of Korea Development Bank* (1964), pp.61-81.

20) Kong, Jae-wook (1993), p.147.

21) Kong, Jae-wook (1993), p.161.

Date	1953.12	1954.12	1955.12	1956.12	1957.12	1958.12	1959.12	1960.12	1961.5
Kim Jitae	28 (0.38)	65 (0.29)	256 (0.43)	234 (0.17)	146 (0.10)	111 (0.07)	107 (0.05)	107 (0.04)	96 (0.03)
Park Heungsik	19 (0.25)	137 (0.60)	259 (0.44)	283 (0.21)	294 (0.21)	438 (0.28)	525 (0.25)	1,059 (0.38)	1,067 (0.36)
Hahm Changhee	-	83 (0.36)	152 (0.26)	351 (0.26)	544 (0.39)	1,904 (1.22)	4,466 (2.16)	4,994 (1.78)	4,994 (1.69)
Baek Nakseung (Baek Namil)	80 (1.07)	66 (0.29)	66 (0.11)	603 (0.45)	1,508 (1.08)	3,176 (2.03)	5,889 (2.85)	6,228 (2.21)	6,513 (2.20)
Lee Hanwon	21 (0.28)	59 (0.26)	208 (0.35)	388 (0.29)	454 (0.33)	1,464 (0.93)	1,863 (0.90)	2,002 (0.71)	3,484 (1.18)
Kim Sunggon (Hong Jaesun)	18 (0.24)	16 (0.07)	45 (0.08)	164 (0.12)	839 (0.60)	1,287 (0.82)	5,159 (92.49)	4,691 (1.67)	4,965 (1.68)
Lee Yongbum	41 (0.55)	159 (0.70)	269 (0.45)	264 (0.20)	343 (0.25)	524 (0.33)	487 (0.24)	470 (0.17)	412 (0.14)
Cho Sungchul	13 (0.17)	32 (0.14)	30 (0.05)	30 (0.05)	60 (0.04)	365 (0.23)	917 (0.44)	1,412 (0.50)	1,425 (0.48)
Total amount of loan and ratio	281 (3.76)	905 (3.98)	2,844 (4.80)	5,787 (4.82)	8,180 (5.88)	16,622 (10.61)	40,003 (19.34)	47,520 (16.89)	51,542 (17.42)

Reference : The 7 major banks are KDB, Industrial Bank of Korea, Choheung Bank, Seoul Bank, Hanil Bank, Chaeil Bank, and Agricultural Bank.

Source : The Investigation Team for Illicit Fortune, "Bujeongchukjae Teukjeongin Yungjasanghwang [Financial Conditions of Specific Illicit Fortune Amassers]" (1961) Kong Jae-wook, "Research on 1950s Korean Capitalists" (Baeksan Seodang, 1993), quoted from p.215.

Loan financing by newly emerging Chaebols was particularly active between 1958 through 1960. This is thought to be because US financing aid to Korea declined significantly as of 1957 and the companies turned to bank loans to satisfy operation costs and investment funds. Moreover, a recession that started in 1958 led to declines in sales; thus, companies had to increase their loan amounts from banks to fill financial shortages.²²⁾ On the other hand, if we observe the disposal ex-Japanese assets chronologically, in 1958 default payments totaled 4,113 cases (70% of total payment

22) In 1957, the Korean government tried to implement a policy to prohibit the increase in currency circulation by banks to stabilize the financial market, however, on the contrary the amount of loans by conglomerates increased. Kim Dong-wook (1994), pp.151-153.

5,973 cases) and in terms of amount, default payment totaled nearly 53 million Won, over one third of the total payment amount.²³⁾

IV. National Economic Policy and *Chaebols'* Rent Seeking

1. Import Substitution Policy and Consumer Products Light Industry

Korean society was ripe for structural, economic, social and institutional transformations, owing to the tremendous upheavals and aftermaths the War forced upon Korea. Syngman Rhee's government, sensing the opportunity, if not necessity, for social changes, weakened the landlord classes' economic control through land reform, meanwhile firmly maintaining economic and social policies fertile to fostering a new capitalist class and self-owning farmers.

His ruling Liberal Party had as one of their central principles this: "we shall protect the rights of commoners and the interests of laborers and farmers from the potential infringements by the landlord class."²⁴⁾ Article 2 of the party's platform states, "we pledge the betterment of farmers and gender equality while overthrowing vestiges of feudalism: classes and factions."²⁵⁾ Some scholars have interpreted the grand, idealistic sentiment in these articles simply as bulwarks for the Liberal Party against Korean Democratic Party and Democratic People's Party that were politically anti-Syngman Rhee and embedded in the landlord class. Liberal Party was pursuing capitalism by setting stable grounds to foster new capitalist.²⁶⁾

Syngman Rhee's government pursued an import substitution industrializing strategy, utilizing US and UN relief funds for the bulk of import purchases. Raw materials and funds for postwar recovery were invested in operation and expansion costs for production facilities so as to meet domestic demands and import substitution effect. The large majority of Korea's chaebols accorded with the government's import substitution strategy, and, thus, focused their import substitution light industries to meet increasing

23) Kim Ki-won (1990), pp.301-302.

24) Central Election Management Committee, *Daehanmingukjungdangsa* [History of Political Parties in Korea] (1968), p.165.

25) The Liberal Party, *Achievements and Policies of the Liberal Party* (1960), p.269.

26) Rhyu Sang -Young, "Structure and Characteristic of Liberal Party" Yonsei University Graduate School, *Womwooronjip* [Journal of Graduate School], No.21 (1993), p.198. The Liberal Party banned co-ownership and independent ownership of laborers, and strictly abided to the principle of disposing assets to capitalists in the process of the disposal of enterprises, going side by side with the collapse of the landed class through agricultural reform.

domestic demand for consumer goods. Records of the government's finance loan distributions clearly reveal the ruling party's penchant for import substitution policies. From 1953 to 1960, 90% of the government's finance loans were given to capitalist activity in general and agricultural industry. Only by 1960 did the funds set for boosting Korea's exports top 1 billion Won, roughly 0.5% of the government's development funds.²⁷⁾ The general industry fund, which reached the most to 55.8%, was all for fostering an import substitution strategy in the period from 1953 to 1960.

US government, in Korea at that period, pursued short-term military and political stability more rather than long-term economic stability, lacking any policy preferences and strategies for promoting export and economic development. With this backdrop, Most of relief aid and funds from US that came in during that time were primarily military purposed ones. Hence, conflicts developed between the US, who advocated the funds be used primarily for military purposes, and Syngman Rhee's government, who had siphoned large portions of the funds into off the Korean economic *en masse*. In *Taeshik*, then the Minister of Finance of the Korea-U.S. Combined Economic Board, said:

One of the sharpest conflicts between ROK and US was on the proportion issues when dividing annual relief into consumption goods and production goods. I argued for larger sums of money for facilities purchasing and factory construction, whereas the US side argued for larger sum of money for consuming goods to expand accumulation of counterpart funds. Because of such conflicts, meetings were, at times, suspended, to let the parties cool down.²⁸⁾

Song Insang, then the Minister of Reconstruction, also records Syngman Rhee's efforts and strategies to allocate more relief aid funds to economic recovery:

We argued strongly to use this counterpart fund to revitalize the economy and to build stable foundations for our economic structures. However, the US side stood firm on the military finance only policy, arguing national budget expansion should proceed through fiscal policy such as increasing taxes.²⁹⁾

27) Korean Development Bank, *Josawolbo* [Research Monthly Review] (1946, 8), p.20.

28) Song, Insang, *Memoirs of Yoonam Song Insang: Revival and Growth* (21st Century Books, 1994), p.163.

29) Hankook Daily, "Reflection of Financial Sector", No.8, pp.37-38.

The US kept pressing for a devaluation of the Korean Won to hasten economic stability, correct the distorted market and hinder rent seeking. Meanwhile, the Korean government's exchange rate policy was related directly to the import substitution strategy and *Chaebols'* rent seeking. The government's goal was to secure more dollars: but, for *Chaebols*, keeping exchange rates artificially low enhanced their rent seeking.³⁰⁾ Industries active in import substitution, therefore, prospered as a result of the government's exchange rate policy.³¹⁾

2. Liberal Party's Dominance and Predatory Rent Seeking

The *Chaebols'* penchant for rent seeking went hand in hand with the political dynamics of 1950's. The Liberal Party needed funds to support their political activities. In return for providing the party with these funds, *Chaebols* sought enormous rents. The Liberal Party had at its sole disposal funds from the disposal of ex-Japanese enterprises, raw material sales, and fund allocations from the Korea Development Bank.³²⁾ They put pressure on government organs to provide special treatments to new capitalists. And, as has been observed in nearly all newly democratic, capitalist states, this pressure, accompanied with active lobbying, increased dramatically in the periods just before and after important elections. In opposition to the 'overdeveloped state' thesis, it is explained that the political society centered on Liberal Party became bloated and pursued plundering rent seeking activity.³³⁾ According to Kim Hyunchul, then the Minister of Finance, traders adhering with Liberal Party put pressure and lobby on government organs to pursue their private interests, thus, Liberal Party's influence was effective and real in allocating financial.

It became imperative for a merchant's success to cultivate strong ties with powerful persons in political parties. For their part, politicians worked hand in hand with these

30) Donald Stone Macdonald, *U.S.-Korean Relations from Liberation to Self-Reliance: The Twenty-Year Record*, Boulder (San Francisco and Oxford: Westview Press, 1992), pp.248-273.

31) Gordon Tullock, the most prominent rent-seeking economics scholar, also concluded that the Syngman Rhee government's import substitution strategy and low exchange rate policy was an archetypical regime for the growth of rent seeking.

32) Refer to the Supreme Committee for National Reconstruction (1963) pp.121-125, 465-477, for Liberal Party's corruption in mobilizing funds for election.

33) Chung-in Moon and Sang-young Rhyu, "Overdeveloped State and the Political Economy of Development in the 1950s: A Reinterpretation," *Asian Perspective*, Vol.23, No.1 (1999), pp.179-203. After the mid-1950s, the Liberal Party was directly involved in policy decisions such as government staffing, economics, and resource allocation.

people to obtain dollars from the Ministry of Finance. The US' continued pressure to use dollar reserves persuaded government to use some of the reserve dollar. The Liberal Party, knowing this, strongly demanded the allotment of dollars along with a public tender and a private contract. Eventually, due to the persistent demand from Liberal Party, government agreed to decide on recipient with Liberal Party.³⁴⁾

In this kind of political dynamics, it was so obvious that Kyungbang, Ltd., that had strong ties with opposition party, was excluded from raw material or finance loan distribution since Liberal Party was in constant surveillance on them. However, to some conglomerates who were in good relation with Liberal Party like Lee Gibung, special treatment was given and in return, they provided funds for political activity. But, by 1957, the US' relief to Korea changed from grants-in-aid to development loans with the size of relief reduced significantly. Accordingly, the domestic economy went into a recession and the rents available to the Liberal Party and *Chaebols* declined. Moreover, there were more facilities in competition for precious allotments of raw materials; and the imbalance between production and consumption increased.³⁵⁾

V. The Rise and Fall of *Chaebols* in the 1950s: Factors and Patterns

During the War and after the cease-fire agreement, at least there were no *Chaebols*' sinking from war destruction but only emerging from new business chances granted by Korean War if only 1950s are considered. After the War, the disposal of ex-Japanese enterprises, raw material distribution, and KDB's finance loans served as grounds for new capitalists to grow into *Chaebols* by the end of 1950s. The coming to power of the Park Chung Hee regime hastened the demise and reemergence of some of these companies throughout the 1960s and 1970s. But, the majority of these conglomerates grew to become Korea's representative *Chaebols*. Hence, we need to approach the formation and growth of Korea's *Chaebols* from a vantage point extending beyond the 1950s.

Volumes have been written regarding the reasons why some *chaebols* have survived until today and others are but a memory. As with most debates, this one too is divided into differing camps. Some have chosen to connect rent seeking with survival while

34) Hankook Daily, "Reflection of the Financial Sector," No.7, pp.389-390.

35) Kim Yang-hwa (1991), pp.155-192. Kim Yang-hwa interprets this as deepening of the risk and monopoly of capital accumulation.

others have focused on actual production and business activities. This thesis assumes that rent-seeking behavior exists in all periods and, therefore, put more emphasis on whether companies' long-term objectives meet actual production and sales figures, rather than focusing only on rent seeking behavior. In detail, two specific questions must be answered to bring this debate to a definitive conclusion: 1) were relief funds after the War invested according to the market demand; and 2) was this investment successful in creating profits that could then lead to long-term survival?

Unfortunately, the extant documents regarding production activities in the 1950s are sparse at best. For example, there are records of how much loans companies received; but, it is hard to trace the utility of these loans to see what was produced and how much profit or performance was generated. This chapter, then, will outline the history of some Korean chaebols. The list of companies was chosen owing to the quality of records still existing on these companies and their particular experiences with rapid growth. From this, we can glean a better understanding of the factors that played into processes of the *Chaebols'* growth, and collapse as well as offer a historical perspective on the 'continuity/ discontinuity' debate.

1. Kyungbang Ltd.

Kyungbang Ltd. has existed from the Japanese colonial era to today.³⁶⁾ Kyungbang Ltd. is an archetypical case of a *chaebol* experiencing economic "ups and downs" solely as a result of politics. In the 1950s, the Liberal Party opposed the expansion of the company, suspecting Kyungbang Ltd. was supporting the opposition party (Korean Democratic Party). Kim Yeonsu of Kyungbang Ltd. never took over any disposed ex-Japanese enterprises, and the KDB's finance loans to the company were minute in comparison to other firms in the same industry. However, right after 5.16 military coup in 1961 they were able to continue with business activity because they were regarded persecuted in Liberal Party's ruling period.³⁷⁾

On the other hand, Kyungbang Ltd. received US relief goods by pressuring the Korean government when they froze any financial support in 1950s, along side with the US government. In fact, Kyungbang Ltd. could not secure any raw cotton. They purchased raw cotton with loans; however, after speculation that the firm was supporting the opposition party, the Syngman Rhee government and bank's coffers dried up. Then CEO

36) Carter J. Eckert (1991).

37) The Committee to Commemorate Dong-eun, *Dong-eun, Kim Yonghwan* (1979), pp.189-191.

of Kyungbang Ltd. Kim Yonghwan's repeated requests for loans from other agencies including the Ministry of Finance and Korea Savings Bank failed. As a result, he was forced to turn to US Diplomats – US special envoy to Korea Clarence E. Meyer and Ambassador John J. Muccio – on the ground in Seoul. The influence of these US Diplomats led Colonel Rolon of the UNCAC (United Nations Civil Assistance Command) to provide raw cotton to Kyungbang Ltd. with 9 months interest free.³⁸⁾

2. Taechang Bangjik

With close ties to the Syngman Rhee government, Taechang Textiles grew to become the first conglomerate to achieve *chaebol* status in 1950s.³⁹⁾ Baek Nakseung, owner of Taechang Textiles, had intimate personal relations with Syngman Rhee dating back to the to the US military government's days in Korea. Mr. Baek was a large donor to Syngman Rhee and his party. In return, Taechang Textiles received \$5.5 million of government reserves in the form of loans in May 1953. In 1956, the company took control of the disposed assets of the ex-Japanese enterprise Korea Textile, which were valued at Korean Won 820 million. Taechang Textiles also was the largest single recipient of 'privileged government loans,' with loan figures reaching into the Korean Won 6. 5 billion range.”

Unfortunately for the company owners and their employees, Taechang Textiles simply was not able to tread fiscal water after the changes in Korea's political landscape brought on by the 5.16 military coup is a typical case of collapse of *chaebol* due to the political power change before and after 5.16 military coup. For example, while Korea Textile succeeded in lease contract with Yonsei University Foundation, only with Syngman Rhee's request, they breached the contract with Yonsei University and contracted with Baek Nakseung to become Taechang Textile.⁴⁰⁾

However, even with these numerous privileges, textile exports did not meet expectations and, subsequently, the company defaulted on its loan repayments. In May 1959 however, the KDB stripped the owners of the textile firm of right of management owing to what the KDB cited as “failure in management.” According to Ministry of Finance records, Taechang agreed to pay 20% of export if there is export revenue in repayment of loan \$5.5 million Taechang received in 1953 and monthly payment of 1.5

38) Kyungbang Inc. (1989), pp.153-155.

39) Park Byungyun, *Chaebol and Politics* (Hanguk Yangseo, 1982), pp.108-109.

40) The Supreme Council for National Reconstruction, “History of Korean Military Revolution, No.1”, 1963, p.123.

billion Hwan if there is no export. Unfortunately, monthly average profit during the last 5 months until 1959 was only 4 million Hwan.⁴¹⁾ On the other hand, Baek Nakseung and his successor Baek Namil had provided 780 million Hwan as political fund. This is a failure case that Taechang Textile did not invest the resources in the actual production, rather provided them as political rent to obtain more privileges; it was a very inefficient rent seeking behavior. Eventually, Baek presented all their assets to the country when they received notification of 1.2 billion Hwan as repayment by the military government and completely collapsed.

3. Samho Group

Jung Jaeho's Samho Group was entitled to many of the same privileges as Taechang Textiles owing to the owner's close relationship with the Liberal Party. Jung Jaeho's business partner was Jung Sanghee, a member of national assembly of Liberal Party.

Established in 1949, Jung Jaeho's Samho Textiles received special loan in 1953⁴²⁾ from the government's reserves amounting to \$470 million. The Samho Group took control of the assets of Daejun Textile National Corporation in 1951 and Chosun Textile Busan factory in 1955 after the latter companies went out of business. With the combined assets, Samho Group went on to become the nation's largest textile *chaebol*. Of interesting note, with the influence Jung Jaeho gained after receiving ex-Japanese owned shares of Cheil Bank, Samho Group emerged as the largest debtor (approximately 8.47 billion KW) among all *Chaebols*.

The Samho Group's experience is case in point that the change in political regimes with Park Chung Hee's *coup d'état* did not spell the end for *Chaebols* willing to "play ball" with the new regime. In fact, if anything, the opposite was true. Park Chung Hee's economic development model centered on cultivating corporate-government ties and supporting the efforts of Korea's fledgling capitalist class. The resultant corporate environment stressed government ties and rapid adaptation to changes in market situations.

The Samho group's participation in the civil consortium for fertilizer, for example, netted the firm sizable profits. Jung Jaeho also was able to milk the government's coffers for approximately 360 million KW in illegal remittances. With the 1960s

41) Ministry of Finance, "Taechangsanup Jungbubul Jyngseo Daebucheol [Taechang Textiles Government Bond Account]" (Doc. No: 77-207), Kong Jae-wook (1993), p.271.

42) The Spinners & Weavers Association of Korea, *A Commemorative Book for the 10 years' Anniversary of the Spinners & Weavers Association of Korea* (1957), No.2, p.77.

recession in the textile industry, however, Samho was forced into KDB supervision and was devastated by the more than 100% of exchange rate loss, incurred in the repayment of \$US 6 million-dollar facilities which they imported from Japan in 1964. Both Chosun Textile (1967) and Samho Textile (1972) were liquidated after insolvency. And with the country's economic recession in the early 1960s and internal corporate failures to adapt to changing industrial circumstances, the Samho Group collapsed at the end of the 1960s.

4. Hwashin Group

Park Heungshik's Hwashin Group already was the largest corporation in Korea when the Syngman Rhee regime took power, owing to the firm's growth under the Japanese colonial regime. The firm's coziness with the Japanese imperial authority in Korea, however, proved to be disadvantageous both socially and economically after Korea's liberation.

Still, the Hwashin Group grew to join the ranks of the *Chaebols* in spite of the Rhee government's anti Japanese/anti-collaborator policy. In 1952, the group took ownership of Heungwan Textiles after receiving Tongyang Textile's Hakik factory. In 1955, they received US \$825 thousand as recovery aid from UNKRA as well as rebuilt Shinshin Department Store. Along with this, Park Heungshik received one billion KW in loans from commercial banks.

Like the Samho Group, the coming of the Park Chung Hee regime did not compromise the Hwashin's Group business standing; the Group actively engaged the military government, submitting business proposals including a development plan for the Seoul Youngdon (current Kanhnam area) region.

The primary reason Hwashin Group collapsed was not political but, rather, economic. Firstly, in 1969, the KDB took possession of Heungwan Chemical Textiles (recent Wonjin Rayon), and sold it off at public auction. Heungwan Chemical Textiles, which the Hwashin Group owned, had stretched its finances beyond its means. The KDB, subsequently, cancelled delivery of a 2 billion KW loan to the Group owing to the bank's finance stability policy. Secondly, Hwashin Electrics and Hwashin Sony, both established in 1970s, suffered from the global oil shock and severe recession, hampering their ability to compete with rival firms.⁴³⁾ Eventually, in October 1980, Hwashin Group received notification of bankruptcy from Choheung Bank.

43) Park Changgyu, "At the Peak of the Reopening: A Success Story of Korean Companies" (Singiwon, 1981), pp.499-525.

In the final analysis, the Hwashin Group's case makes the case for the primacy of economics over politics in the doing and undoing of Korea's *Chaebols*. The Hwashin Group was able to survive political crises in Korea only to fail in the competitive business environment in the 1980s.

5. Samsung Group

Lee Byung-chul's Samsung Group is the representative case of *chaebols* continuing from the post-Korea War. The Samsung Group grew in definitive phases: 1) through extensive trade during the War; 2) through manufacturing goods after the War; and, 3) from the 1960s on, through developing an *avant garde* product line. The Group has been adjusting flexibly to the changing business environment since.

The Samsung Group differs from other *Chaebols* in that the Group established its flagship firms, Cheil Jedang (1953) and Cheil Industries (1954), without having received any ex-Japanese assets or enterprises. Moreover, in 1957, they became major shareholders of Hanil Bank with holdings of 83% by receiving ex-Japanese shares of Hankook Heungup Bank along with the ownership of almost half of 4 major commercial banks. Samsung Group bought machines for Cheil Industries with \$600,000 from FOA and received construction and facilities funds of 58.3 million Won from the KDB. Cheil Jedang purchased raw sugar with "Special Foreign Currency Loans" and expanded construction with the ICA relief funds. Throughout the 1950s, the Samsung Group's total loans amounted to 5.3 billion KW, which put it fourth in amount borrowed among all *Chaebols*. Meanwhile, Samsung Group provided 6.4 billion KW to political parties and after the *coup d'etat* the size of redemption of illicit wealth forcefully allotted by military regime was 8 billion Korean Won, which was the second after Taechang Textile.⁴⁴ In 1958, further, the Samsung Group acquired Chosun Tire Engineering and established Hankook Tire.

The Samsung Group followed an import substitution strategy and received government supports to establish Cheil Jedang and Cheil Industries. Cheil Jedang received \$180,000 from the government and financed fiscal shortages with loans from Sangkong Bank (recently Hanil Bank). In April 1954, only 6 months after the start of business, government demand, particularly for blankets and garments rapidly, sky rocketed, pushing the Group to double production facilities.⁴⁵ Tellingly, in its first year of production of combed yarn for the public and military consumption, Cheil Industries

44) The Supreme Council for National Reconstruction (1963), p.469.

45) Cheil Jedang Inc., *Thirty Years' Cheil Jedang* (1983), Chapter 2.

lacked the experience and production quality to spawn increased demand; and as such, the firm ended the year in debt. By the second year, Cheil Industries had improved its production quality enough to end the year with a financial surplus. Still, the government's decision to ban the import of combed yarn products in the 1950s gave Cheil Industries a near monopoly that was bound to turn a profit at some point.⁴⁶⁾

However, right after the *coup d'état*, the Samsung Group was classified as illicitly accumulated enterprises, Lee Byung-chul persuaded Park Chung Hee and acquired "Investment Order", which was a political compromise that Park forgave chaebols for illicit accumulation of wealth and chaebols promised to support Park's regime in return.⁴⁷⁾ *Chaebols* were able to actively participate in economic development plans and the government's export oriented strategy. The Samsung case also supports the argument that economic factors and business capability were related more strongly than purely political factors for *Chaebols'* growth.

VI. Conclusion: Continuity and Discontinuity of Korean *Chaebols*

The Korean War provided enough new market demand for the emersion of Korea's chaebols. During and after the War, disposal of ex-Japanese enterprises, relief funds, government reserved dollar allocations and bank finance loans provided the grounds for the formation of *Chaebols*. In the mid-1950s, large conglomerates calcified into bureaucratic and predatory *Chaebols*, focusing on an import substitution growth model based on consumer products.

In light of the fact that some 40% of large companies were ex-Japanese enterprises in 1950, the argument can be put forward that Korea's *Chaebols* were the fruits of continuations from the colonial era. We must temper this argument, however, with this: the War destroyed most of these companies, and they were rebuilt in the War's aftermath with relief funds and loans. Therefore, continuity cannot be discussed only with consideration of ex-Japanese enterprises. Additionally, by the end of 1950, many of these companies were liquidated owing to management failures, and most business leaders were newly emerging capitalists with little to no experience leading large-scale firms during the Japanese colonial regime.

In addition, if we are inclined to focus exclusively on rent seeking and political ties which were predatory and political for the successes of Korea's *Chaebols*, we will

46) Cheil Industries Inc., *Forty Years' Cheil Mozik* (1994), pp.134-149.

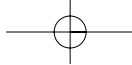
47) Lee Byung-chul (1986), p.121.

overlook the more pertinent long-term causes for the *Chaebols* continued growth well into the 1960s. Hence, the need to couple the *Chaebols* rent seeking behaviors with their growing abilities to utilize and maximize productivity. From such a vantage point, a number of patterns regarding the rise and fall of *Chaebols* emerge: 1) contrary to general assumption, political factors are neither the sole nor majority cause for the growth of these *Chaebols*; rather, their growth owes largely to economic and monetary principles, namely stability and growth policies and flexible production and innovation chains; 2) it is hyperbole to argue that the political regime change with the May 16th *coup d'état* caused many otherwise sound *Chaebols* to fold. Analysis into the ones that did fold tells of these firms' over exposure to bad debts, increasing deficits and failures to find new areas of business into which to grow; and finally, thus, 3) the emergence of Korean *Chaebols* originates in the 1950s in the War's aftermath and the developmental trajectory of *Chaebols* is characterized by an economic factor-pulled continuity rather than a political factor-pushed discontinuity.

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