



## Improve competition, laws, and regulation to lessen role of chaebol in Republic of Korea

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Big family business groups known as chaebol still dominate in the Republic of Korea, stifling the growth of other businesses and causing investors to look twice before putting money in the country.

These huge diversified companies led the country's emergence but have since become a drag on its growth.

A recent report by the Organisation for Economic Co-operation and Development looked at the issue. Randall Jones, head of the OECD's Japan and Korea desk, suggested some ways to fix the problem at an event hosted by the Asian Development Bank Institute:

**Nowadays, chaebol are not very popular. They are blamed for many problems, they are blamed for squeezing out opportunities for SMEs, they are blamed for discouraging entrepreneurs, they are blamed for corruption, they are blamed for concentration, which leads to market power, lack of competition, and they are blamed for putting their own family interests against their own shareholders of the affiliated companies.**

Efforts have been made to rein them in, but the chaebol have managed to maneuver around some of the regulatory fixes that were supposed to offset their influence.

Outside investors pay less to invest in the country because of the chaebol and the failure of the financial system to limit them.

**The practice of corporate governance is not so strong in Korea. In 1997 as part of the crisis, the IMF required changes in the corporate government, but it's**

taken a long time to really change the system, so Korean corporate governance is ranked above China, but below India. This leads to the Korean discount, the Korean price-to-earnings ratio is about half of the world average. Many people say it's because of North Korea, but a lot of it has to do with the lack of transparency in companies that belong to the business groups.

Jones recommends that the government encourage competition within industries. In areas where competition is tough, chaebol have to concentrate on staying alive and can't afford noncompetitive practices such as funneling money between their own firms.

He suggests corporate governance could be improved by increasing the role of outside boards of directors and increasing their independence.

Third, we have to follow through on the pledge to not let corrupt business leaders come back to power. It's very frustrating when a leader of a business group goes to jail, in theory for corruption, and 5 minutes later, they're back as the leader of the industry group. It's very important to enforce these rules.

He also suggests that allowing class-action suits against companies might help lessen their influence.

It's very hard to change the system, but I think these are the practices that we need to have to gradually make the chaebol more efficient. We're not trying to get rid of them, we're trying to make them more efficient and fair, and President Moon's objective is basically to make a fair economy by improving the chaebol.

That was Randall Jones, head of the Japan and Korea desk for the Organisation for Economic Co-operation and Development, speaking at the Asian Development Bank Institute in Tokyo.

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