

## **Are Korea's Chaebol Serious About Restructuring?**

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## **Korea's Embattled Chaebol: Are They Serious About Restructuring?**

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### **Introduction**

In November 1999, the founder and chairman of the Daewoo Group, Kim Woo-choong, suddenly found himself without a job. Kim's departure capped a tumultuous six months in which the head of the second largest business group in Korea belatedly began to restructure his conglomerate in the spring, only to face a liquidity crisis in July. Ironically, his troubles came just as a robust economic recovery was underway. Unfortunately, it was too late. Kim had displayed the ultimate hubris: Instead of restructuring his over-leveraged, over-extended, and far-flung empire after the economic tsunami struck Korea in 1997, Kim went on a buying spree, driving Daewoo Motor and Daewoo's 36 other subsidiaries into the ground. With over \$50 billion in debts (the exact figure is still unknown), Daewoo presented Korea with an unprecedented corporate bankruptcy. In fact, no country in the world had witnessed such a large company go bust. The man who once boasted that he had not taken a day off in years and was too busy to even remember his wife and children's birthdays, suddenly had plenty time to play with the grandchildren. Kim has single-handedly demonstrated that even the top five chaebol are not too big to fail.

The Daewoo case underscores the fact that the chaebol still face an imperative in the aftermath of the Asian economic crisis: Restructure or perish. Daewoo's Kim inadvertently chose the latter path. The chaebol are as much at the heart of Korea's economic successes and

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failures today as ever before.<sup>2</sup> After all, it was a string of bankruptcies--led by Kia and Hanbo-- that precipitated Korea's case of the Asian Flu in the fall of 1997. At the same time, the chaebol remain the key to Korea's economic future. Sufficient time has now passed to be able to make a preliminary assessment of the chaebol's restructuring efforts and the evolution of government-business relations more broadly. Have the reforms been cosmetic, as recent reports by two leading international credit rating agencies suggest, or have they been substantial?<sup>3</sup> Now that the economy has bounced back much faster than most analysts (including myself) expected, just how committed are the chaebol and the government to reform? There is the perception among many observers that the chaebol have become complacent. In addition, to what extent can foreign direct investment help improve the chaebol's capital structures and corporate governance practices? Finally, how does the rise of a 'new economy' based on the information-technology sector in Korea impact the future of the chaebol?

Since President Kim Dae-jung took office in February 1998, the government and the chaebol have been locked in a struggle over the pace and extent of restructuring. Kim has made chaebol reform one of the pillars of his economic policies. During his August 15 Liberation Day speech last year, Kim went so far as to say, 'I am determined to go down in Korean history as the first president to successfully undertake corporate reform...' At the initial stage, lowering the

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<sup>2</sup> For an analysis of the chaebol as the economic crisis unfolded, see Beck (1998). For contrasting views of the role of the chaebol in the Korean economy and their impact on the economic crisis, see Lim (1999) and Rowley and Bae (1998). The former sees the chaebol as the key to Korea's economic success while the latter views them as the cause of Korea's economic ills.

<sup>3</sup> For a brief review by an international credit rating agency of the restructuring tasks still confronting Korea, see Moody's (2000).

chaebol's crushing debt burden was the primary goal. However, with that goal at least partially achieved, the reform agenda has shifted to issues of corporate governance, in particular, transparency and accountability. More recently, President Kim has expressed his growing impatience, "We have waited long enough. This time we will take action." (KNR 4/17/00). The chaebol continue to offer formidable resistance. The vice chairman of the chaebol's umbrella group, the Federation of Korean Industries (FKI), went so far as to say, "It is not desirable for the government to make further measures to meddle in corporate matters because we have already had enough" (KEW 5/1/00).

Who will win this battle of wills? At first glance, the outcome of the National Assembly elections in April would seem to give the edge to the chaebol. Kim Dae-jung's ruling coalition lost its majority in the National Assembly and his coalition partner, Kim Jong-pil, distanced himself from the ruling coalition prior to the coalition. However, Kim Jong-pil does not have a lot of alternatives. As he nears the end of his political career, unless he wishes to ride off into the sunset as a member of a divided opposition, he will have to bite his tongue and remain part of the coalition.<sup>4</sup> This would still leave the coalition just short of a majority, but if the past two National Assembly elections provide any lessons, it is only a matter of time before enough members join the coalition to give it a majority.<sup>5</sup> Nevertheless, even some chaebol leaders have quietly said that all they have to do is wait out the Kim Administration--his term will end in less

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<sup>4</sup> In nomination in late May 2000 of Kim Jong-pil supporter Lee Han-dong as prime minister is the strongest indication yet that Kim's party will remain part of the coalition.

<sup>5</sup> Kim Dae-jung's party won a total of 115 seats and Kim Jong-pil's party won a paltry 17, leaving the coalition five short of a majority. With the four independents elected from Kim Dae-jung's home province expected to join the coalition, the coalition would then need to find only one more member from either the leading opposition party or one of the splinter parties.

than three years. However, based on the past two years, much can happen in the next three. Therefore, the Kim Administration's chaebol reform agenda and the extent to which it is pushed, are unlikely to change.

For a government that lists the deepening of the market principles as one of its founding tenants, one of the biggest dilemmas for the government is determining the extent to which it should intervene in the restructuring process. In many ways, the Korean government served as the midwife to the chaebol in the 1960s and allowed them to dominate the Korean economy, so simply stepping back and telling the chaebol to work things out among themselves would be irresponsible. However, this means that the government has essentially gone from picking the winners to picking the losers. This may be unavoidable in the short term, but determining which companies remain viable and which are not will be extremely difficult.

Since the economic crisis hit, a number of new advocates for chaebol reform have emerged in Korea and taken up President Kim's agenda. These new players include the chaebol's foreign creditors, foreign fund managers, Korean and foreign minority shareholders, institutional investors, civic groups, and Korea's IT start-up companies. These groups have at times even formed informal alliances to press the chaebol's feet to the restructuring fire. Jang Ha-sung, a professor at Korea University and the president of the People's Solidarity for Participatory Democracy, has emerged as the leading advocate of chaebol reform among Korea's civic groups.<sup>6</sup> He recently noted, "If reform halts now, the founding families will continue to steal money from minority shareholders through opaque deals involving various units" (BW

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<sup>6</sup> Jang was the informal winner of my Foreign Press Media Favorite award for 1999 and could easily win again this year. You Jong-keun was the winner in 1998.

3/13/00). Thus, President Kim is far from alone in seeking chaebol reform.

On the government side, the Financial Supervisory Commission and Financial Supervisory Service were created in the wake of the crisis and have emerged as the locus of chaebol reform within the government. Former FSC chairman Lee Hun-jai, who was named finance minister earlier this year, emerged as the chaebol restructuring czar. The Ministry of Finance and Economy also created the Corporate Governance Reform Committee, comprised of private sector specialists, to formulate policy recommendations. The Fair Trade Commission is also showing some signs of life. In July 1998, the FTC imposed modest fines of \$60 million on the top five chaebol for illegally subsidizing their subsidiaries. In February 1999, the FTC fined five mid-ranking chaebol \$15 million. However, the USTR recently called the FTC opaque and arguably uneven in its application of the Fair Trade Law (USTR 2000, p. 271). In sum, a host of public and private sector organizations have are committed to restructuring the chaebol. We can now turn to the restructuring agenda itself. How much progress has been made?

### **Lowering Debt Levels**

In January, 1998, before he even took office, President Kim sat down with the heads of the top five chaebol and hammered out a basic agreement on the principles guiding chaebol reform. The chaebol agreed to enhance their corporate transparency, eliminate cross-debt guarantees, undertake capital structure improvements, focus on core competencies and improve managerial accountability (FSS, August 25, 1999). At the outset of the crisis, the primary focus was on lowering the chaebol s crushing debt burdens.

At first glance, Table 1 would suggest that the top chaebol have dramatically improved

their capital structures and focused more on core competencies.<sup>7</sup> All but Daewoo have substantially lowered their debt-equity ratios, with most even under the government-mandated 200% level. Many cut their debts by more than half.<sup>8</sup> Those that could not, namely Kia and Daewoo, no longer exist in their pre-crisis forms: Kia is now part of Hyundai and Daewoo is in the hands of its creditors and in the process of being broken up.

Kia has actually turned out to be a modest success story and illustrates some of the capital structure weaknesses which made the chaebol vulnerable to crisis in 1997 as well as the probable recovery path for other faltering groups. Kia, ranked 8<sup>th</sup> in 1997, was a typical, highly leveraged chaebol when it imploded.<sup>9</sup> After a protracted series of negotiations, Kia was taken over by Hyundai in November 1998, much to the disappointment of many foreign analysts. Nevertheless, Kia is now profitable again, earning a modest but significant W180 billion in 1999 based on a recovery of domestic demand and rising exports. Consequently, it applied for the lifting of court receivership in January 2000 as it has lowered its debt-equity ratio from 810% to 172%. Most dramatically, Kia went from a negative capitalization of W5.2 trillion to a positive net worth of W2.6 trillion. However, we should not overlook the fact that Kia was bailed out by the government. W4.8 trillion of its debt was written off and it received a public capital injection of W2.5 trillion (BK 2/2000). This actually explains a significant portion of Hyundai's debt

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<sup>7</sup>Recently, there has been considerable debate over whether the rankings should be based on assets, which include both capital and debt (enabling Daewoo to borrow its way to the top), or on Western notion of market capitalization.

<sup>8</sup> Critics viewed the figure as arbitrary and the end of 1999 deadline to be too hasty

<sup>9</sup> Ironically, Kia was one of the only groups in the top 30 under professional management at the time the crisis hit, demonstrating that professional management alone is not sufficient to insure success.

reduction. Nevertheless, one of the main reasons Kia went under in the first place was not because it made bad cars, but because it was being crushed under the weight of its debts, especially as that of poorly performing affiliates.

When we look more closely at the debt-equity figures in Table 1, as with Kia, appearances can be deceiving. A considerable portion of the debt reductions came through asset revaluations as well as equity swaps between subsidiaries (both the accounting equivalent of using smoke and mirrors). FKI angrily denied that these questionable methods were used when Moody's and S&P mentioned them in their May 2000 reports. Given that there was only modest debt reduction and little attraction of FDI by the top five chaebol, that essentially leaves new stock and bond issuances as the primary means of debt reduction. In fact, for the top five, half of all capital structure improvements came through rights offerings. A total of W9.7 trillion was generated through asset sales and foreign investment, while W10.3 billion was raised in stock and bond offerings (Table 2).

A number of chaebol affiliates were placed in court-supervised workout programs. To date, workouts have been imposed on 76 chaebol subsidiaries. The outcome of these workouts is still unclear as most have failed to meet workout targets. Some companies are making progress, but at least a third remain in doubt and could require additional bailouts. As many as 10 are expected to be removed from the workout programs, pending approval by the Financial Supervisory Service (KEW 5/1/00).

There has only been a modest lowering of absolute debt levels. To date, rights issuances has been the preferred route. The problems in the banking sector and strong economic recovery have forced the chaebol to turn to equity-based financing rather than debt-based. Prior to the



crisis, the two were in balance, now equity issues dominate by a ratio of 10-1 (BK 2/99).

Chaebol chairmen are reluctant to undertake debt-equity swaps because this would dilute their control and banks are uneasy due to lack of experience. The chaebol have also increasingly turned to their NBFIs subsidiaries to provide financial lifelines, often in violation of the law. Several chaebol are under investigation by the FSS (BK 10/99).

A final note of caution is in order. One of the best indicators of financial vulnerability for a company or conglomerate is the capability to service debts, which can be expressed as the interest payment coverage ratio.<sup>10</sup> The figure for the chaebol remains dangerously low. Lieberman (2000) estimates that as of the end of 1998, most chaebol remain just above 1.0, which is considered the threshold for bankruptcy.

In terms of business activity and specialization, the average Top 30 chaebol slimmed down from 27 to 19 subsidiaries. However, we should also be wary of these figures. The vast majority of the spin-offs have been extremely modest, with over 3/4 having less than 50 employees, while larger subsidiaries have often just been merged together. Most tellingly, almost all of the top ten increased their total assets over the past three years, suggesting that there has been little or no slimming down. Among the top ten, only Hanwha has undertaken substantial selloffs. Daewoo and Hyundai actually did the opposite by taking on distressed assets. This would suggest that there is little indication that the chaebol are focusing on their core competencies. Moreover, the top chaebol are all clamoring to enter the IT field as well as snap up the soon-to-be privatized state-owned enterprises, like POSCO, HANJUNG and Korea Gas.

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<sup>10</sup> The interest payment coverage ratio is calculated by dividing operating earnings by interest expenses. A number less than one suggests imminent bankruptcy. Most countries are in the 3-4 range, with Taiwan the highest at 6.0. For more details see Nam et al. (1999).

The chaebol have not lost their voracious appetites. The Big Deals (asset swaps between chaebol) were intended to promote specialization, but to date, few deals have gone through. The deals have largely failed, according to Nomura Securities as they did not address the issue of excess capacity, and in most cases, increased market concentration. The deals also represented a very interventionist role for the Korean government in the restructuring process.

The chaebol continue to dominate credit allocation, both from the banks and the non-bank financial institutions (KNR 8/28/99). The FSS reported in March that Korea's banks provided ₩41.3 trillion more than was legally permissible to the top five chaebol (KH, 3/11/00). Korea's banks are in the awkward situation of trying to push themselves away from the chaebol, but at the same time, they are not wanting to jeopardize loans already extended to the chaebol should the companies become insolvent. The old expression, owe the bank a small sum, you owe the bank; owe the bank a large sum and the bank owes you holds painfully true for chaebol creditors. As banks have been forced to tighten their credit allocation and shift away from the chaebol, the chaebol have increasingly turned to non-bank financial institutions for support. As Table 2 shows, the chaebol have rapidly increased their equity shares in the investment trust companies, life insurance companies, and NBFIs in general.

Despite all of the changes that have taken place among the top chaebol, liquidation remains the rare exception rather than the rule when it comes to bankruptcy proceedings. According to a report by Korea's Supreme Court, 187 firms were under court receivership in 1999. However, historically, firms are rarely liquidated--only 9% have suffered that fate to date (KH 2/15/00). Banks are reluctant to take this step because it would raise their already dangerously high NPL levels. Instead, debts are rescheduled, interest payments suspended and in

some cases new lines of credit are extended. For example, the liquidation value of Daewoo is believed to be pennies (AWSJ 5/8/00). Many creditors are unprepared to just cut their losses.

### **Corporate Governance: Improving Transparency and Accountability**

As immediate liquidity concerns have been addressed and debt levels gradually fall, the emphasis of chaebol restructuring has shifted to the root causes of their precarious asset structures: Corporate governance. Joh (1999) and Ko (2000) both have correctly identified the problematic aspects of corporate governance in Korea: The fusion of ownership and control; the imperial control of the founding family over the entire group, leaving strong subsidiaries vulnerable to the performance of a weak sibling; a lack of transparency; poor bankruptcy enforcement; and little or no role for minority shareholders and directors. In her most recent research, Joh shows quantitatively that a lack of corporate control by shareholders enabled the chaebol owners to pursue their own interests rather than company value. According to Kim (1999), the question is not whether to provide support to a particular subsidiary, but how that decision is made. Kim argues, What the government should do is eradicate this pre-modern system and help establish a contemporary system based on accountable and professional chaebol management (p. 83).

Less than two weeks after President Kim made his strong statements about the chaebol in his August 15, 1999 speech, a second agreement was reached between the government, the top five chaebol, and creditor banks (see Table 4). It included elements of corporate restructuring, but the focus of the accord was on corporate governance issues. The chaebol agreed to a series of potentially dramatic changes, including increased transparency, greater accountability and

ultimately the establishment of truly independent subsidiaries with professional managers at the helm. This agreement poses the greatest threat to founding family control; the crackdown on inheritance taxes is the clearest indication that the chaebol families are ultimately expected to relinquish managerial control.

In order to enhance transparency, consolidated financial statements are required for fiscal year 1999, but have not appeared yet. This will be an important step in determining the real financial situation of a company or group. Without this information, it is impossible for investors and lenders to get a true picture of the chaebol's financial situation. Listed subsidiaries are required to submit financial statements, but many subsidiaries are not listed, despite often having financial links to listed firms. Financial accounting standards remains an on-going concern as well (E 5/20/00).

The ultimate key to corporate governance for the chaebol is accountability. Until the economic crisis hit in 1997, the chaebol chairman were free to make all decisions for their groups without any effective checks and balances. This was widely seen as one of the central causes of the economic crisis. As a first step, the chaebol are being made more accountable internally through more active and independent boards of directors, and externally through expanded rights for minority shareholders.

The government has ordered the chaebol to appoint at least half of their directors from outside the company and founding families. SK Telecom was one of the first to agree to shareholder demands and appointed three outside directors (out of 12). These directors were additionally granted veto power over key decisions, such as major decisions on foreign investment and intra-subsidiary dealings. LG was one of the first to allow minority shareholders

to appoint 2 out of 8 of its board directors (E, 4/1/00). The government expects the chaebol to ultimately appoint half of all directors from the outside, but it has not given a deadline. The chaebol leaders complain that Korea lacks a sufficient pool of candidates. Boards are gradually being given more decision-making authority, but this is an on-going process.

The rights of minority shareholders and institutional investors were strengthened in 1998, but opposition from the chaebol remains strong. Minority investors have placed pressure on the chaebol to be more accountable through the company's annual shareholder meetings. Jang Ha-sung and the PSPD have led the fight. Jang has focused his energies on Samsung Electronics and SK Telecom. He has been joined in his struggle by some unlikely partners, such as foreign institutional investors like Tiger Fund and the Templeton Group. Shareholder's meeting that usually last less than an hour can now take more than ten hours. The chaebol have responded by trying to hold their meetings on the same day (FT 5/4/00).

The selection of CEOs and presidents of subsidiaries has also become an issue of contention between the government and the chaebol. At present, the decisions are up to the chairman. The government proposes that this power be shifted to the board of directors. The government has also called for the disbanding of the chairman's committees and offices that make group-wide decisions. The chaebol families have traditionally used the chairman's strategic planning office as the means of controlling the entire chaebol. When the government put pressure on them to close these offices down, most just replaced the nameplate on the office door with restructuring headquarters. (KEW 4/3/00). The chaebol chairmen are reluctant to close down these offices and committees. However, the government policy that may ultimately strike at the heart of family control and the separation of ownership and management, is the

current round of tax probes of wealth transfers to offspring by chaebol chairmen. By holding the chaebol families to stricter inheritance rules, it will be more difficult for families to maintain their control over the groups. Only time will tell how this battle turns out. So far, four Top 20 chairmen have been forced to step down, but only two were replaced with professional managers (Table 5).

### **Samsung and Hyundai**

If Daewoo is the most dramatic example of failure, then Samsung Electronics represents one of the strongest cases of reform and innovation; big can indeed still be beautiful. The subsidiary recorded profits of W2.1 trillion in the first quarter of 2000, up 300 percent from last year. Samsung's future is equally bright: Samsung announced on April 20 that it had perfected a 512M DRAM chip and would begin mass production in 2003, anticipating revenue of \$15 billion in the first year. The same week, it also announced that it had developed an advanced TFT-LCD for cellular phones (KEW 5/1/00).

Hyundai's outlook is less clear. Some analysts worry that Hyundai could be the next Daewoo. Among its core companies, Hyundai Heavy Industries and Hyundai Motor are modest revenue generators, but Hyundai is still suffering from a crushing debt burden, which was only exacerbated by its purchase of Kia and North Korea projects. The entire group is being pulled down by the debts of Hyundai Investment Trust, thanks to cross ownership of shares by various Hyundai subsidiaries. Moreover, with the global consolidation of the auto industry underway, many analysts have begun to question whether Hyundai Motors can survive independently, especially if Daewoo is sold to a foreign suitor. The premature announcement about a tie-up

with Mitsubishi underscored the sense of urgency. Hyundai is currently seeking a strategic alliance and/or joining a global consortium. The company is reading the handwriting on the wall that being the ninth-largest auto maker in the world may not be sufficient to survive in an age of global automotive companies. The family feud between two of Hyundai honorary chairman Chung Ju-young's sons provides a vivid reminder that most of the chaebol are still family run. Ironically, sibling rivalry could have the beneficial effect of breaking up the group. The feud between brothers led to the announcement that Hyundai Motors would break off from the rest of group by June (KT 5/18/00).

### **The Role of Foreign Direct Investment**

FDI presents a rapid but lasting means of placing Korea's corporate sector on a stronger footing. FDI can help Korean companies improve their balance sheets as well as provide advanced managerial practices--the primary objectives of corporate restructuring. Thanks to a fundamental shift in FDI policy under Kim Dae-jung, Korea has emerged as one of the top destinations for FDI in Asia. In 1999, Korea attracted a record \$15.5 billion in FDI. Several of the mistakes made by the chaebol that led to the economic crisis in 1997 have been sold to foreigners--a Nabors-led consortium bought Hanbo Steel for \$480 million in March 2000 and Renault paid \$550 million for a 70% stake in Samsung Motors. This came after the Samsung Group had invested \$3.0 billion for plant construction and suffered losses of \$1.5 billion in its first two years of operation. Samsung chairman Lee Kun-hee was forced to pledge \$2.5 billion of his family's wealth to pay down the debt. The biggest investment to date remains Philips \$1.6 billion investment for a 50% stake in LG's LCD business. The sale of Daewoo Motor will be an

important test case of the extent to which FDI will be allowed to play a role in the domestic economy. Even one of Daewoo's lead creditor banks, the Korea Development Bank, supports the sale of Daewoo Motor to a foreign automaker (FT 3/30/00). Most analysts expect Daewoo Motor to be awarded to General Motors or dark horse Ford Motors.<sup>11</sup>

### **The Chaebol and the `New Economy : Threat or Opportunity?**

The gradual emergence of information-technology start-up companies (venture companies in Korean) presents a new challenge and opportunity for the chaebol. The real question is, will the chaebol eat or be eaten by the new economy start-up companies? The Korea Venture Business Association predicts that there will be 40,000 companies created by 2005 (E 4/1/00). According to the Ministry of Information and Communications, there were 252 info-tech start-ups in 1999 with revenues of W4.9 trillion, comparable to the 13<sup>th</sup> largest chaebol (KEW 1/24/00). Overall, the Internet economy totals over W8 trillion or 2% of GDP and is growing at an annual rate of 58%, three times that of the manufacturing sector (KEW 1/24/00). Perhaps most tellingly, nearly half of all Koreans are expected to be on-line by the end of the year

Many of the top chaebol are experiencing a human resource drain to start-ups. Entire divisions and departments within LG and Samsung SDS have been decimated by employee migrations to start-ups. Other chaebol have begun to introduce stock option plans and performance-based pay bonuses to improve retention rates (KEW 1/10/00; E 4/1/00). The chaebol are responding to the challenge in terms of business activity as well. For example, in

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<sup>11</sup> For a longer discussion of FDI, see KI, 4/2000



1999, LG acquired a majority stake in the leading ISP and second largest teleco, Dacom (E 4/1/00). Samsung Electronics has established a strategic alliance with Yahoo! Inc. as well as a special team assigned to identifying promising entrepreneurs and help them bring their products to market (AWSJ 3/6/2000; E, 4/1/00). Samsung has also created a Internet Shopping Division and established Together Mall and Samsung Mall to tap into the burgeoning Internet shopping market (BW, 3/20/00).

**Table 1 The 10 Largest Chaebol Before and After the Crisis (unit: trillion won)**

**1997**

<b>Rank</b>	<b>Company</b>	<b>Assets (1996 end)</b>	<b>Debt-Equity Ratio (1997 end)</b>
1	Hyundai	59.3	579%
2	Samsung	54.4	371%
3	LG	45.5	313%
4	Daewoo	37.5	472%
5	SK	24.0	320%
6	Ssangyong	18.3	400%
7	Hanjin	17.6	908%
8	Kia	14.5	524%
9	Hanwha	14.4	1,215%
10	Lotte	7.9	216%
	<b>Top 30 Average</b>		<b>519%</b>
	<b>Top 30 Ave. No. of Subsidiaries</b>		<b>27.3</b>

**1999**

<b>Rank</b>	<b>Company</b>	<b>Assets (end 1999)</b>	<b>Debt-Equity Ratio (end 1999)</b>
1	Hyundai	88.6	152%
2	Samsung	67.4	146%
3	LG	47.6	148%
4	SK	40.1	133%
5	Hanjin	20.8	184%
6	Lotte	15.8	76%
7	Daewoo Corp.	13.1	--
8	Kumho	11.5	222%
9	Hanwha	11.4	132%
10	Ssangyong	9.7	634%
	<b>Top 30 Average</b>		<b>164%</b>
	<b>Top 30 Ave. No. of Subsidiaries</b>		<b>19.0</b>

Source: Fair Trade Commission

**Table 2 Financial Data for the Top Five Chaebol (trillion won)**

	1997 (end)	1998 (end)	June 30, 1999
<b>Debt</b>	220.4	225.1	222.7
<b>Shareholder Equity</b>	46.9	58.3	73.7
<b>Debt/equity ratio</b>	470%	386%	302.2%
<b>w/ asset revaluation</b>		302%	235%
<b>Asset sales (US\$bn)</b>		7.4	7.0
<b>Rights Issues</b>		7.3	10.3
<b>Foreign Investment</b>		2.7	2.7
<b>Cross Holdings Reductions</b>		4.3	3.4

Source: Financial Supervisory Service, August 25, 2000

**Table 3 Portion of Non-Bank Financial Institutions Owned by Top 5 Chaebol**

	March 1996	March 1997	March 1998	March 1999
Investment Trusts	5.8%	6.2%	23.7%	31.6%
Life Insurance Cos.	30.0%	30.5%	33.4%	36.4%
NBFIs	17.6%	18.6%	29.5%	34.0%

Source: Financial Supervisory Service

**Table 5 Top 20 Chaebol Chairman Resignations and Outcomes**

Rank	Group	Situation	Outcome
2	Daewoo	Founder resigned	Professional managers appointed by creditors
6	Hanjin	Founder resigned	Son appointed chairman
8	Kia	Professional manager resigned	Became part of family-run Hyundai
10	Dong-Ah	Founder resigned	Professional manager appointed
12	Halla	Founder resigned	Professional manager appointed

Source: News reports; compiled by the author

**Table 4 Government-Top Five Chaebol-Creditor Bank Agreement on Restructuring**

Objectives	Measures
Corporate Restructuring	<p>Abide by the terms of the Capital Structure Improvement Agreement signed with creditor banks.</p> <p>Lower group-wide debt-equity ratio to under 200% by the end of 1999.</p> <p>Continue asset sales, recapitalization, foreign capital inducement, removal of cross-debt guarantees and spin-offs.</p> <p>Undertake debt-equity swaps with creditor banks.</p> <p>Complete Big Deals by the end of the year.</p>
Corporate Governance	<p>Create Standard Norms for Corporate Governance as soon as possible.</p> <p>Expand the rights of minority shareholders.</p> <p>Enhance accountability of major shareholders [owners].</p> <p>Enhance supervisory functions of creditor financial institutions.</p> <p>Expand the number of outside directors to half.</p> <p>Replace the current audit system with an audit committee composed largely of outside directors.</p> <p>Submit consolidated financial statement to creditor banks.</p> <p>Improve firewalls between non-bank financial institutions and the chaebol.</p>
Intragroup Relations	<p>Reduce cross ownership among subsidiaries in phases.</p> <p>Observe limits on inter-affiliate stock ownership as of April 2001.</p> <p>Restrict intragroup transactions and enhance decision-making transparency through the creation of a Mandatory Public Announcement System.</p>
Inheritance Taxation	<p>Follow stricter rules governing inheritance and gift taxes.</p> <p>Expand gift and inheritance tax criteria and raise tax rates.</p> <p>Lengthen the statute of limitations on such taxes from 15 years to forever.</p>

Source: Financial Supervisory Service, August 25, 1999

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*Asian Wall Street Journal* (AWSJ, weekly)

*Business Korea* (BK, monthly)

*Business Week* (BW)

*Far Eastern Economic Review* (FEER, weekly)

*Financial Times* (FT)

*Korea Economic Weekly* (KEW)

*Korea Herald* (KH)

*Korea Insight* (KI, monthly, Korea Economic Institute of America)

*Korea Newsreview* (KNR, biweekly)

*Korea Times*

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