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Doctoral Thesis

Dominant Capital and the Transformation of Korean Capitalism: From Cold War to Globalization

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Dominant Capital and the Transformation of Korean
Capitalism: From Cold War to Globalization

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A dissertation submitted to the Faculty of Graduate Studies in
partial fulfilment of the requirements for the degree of
Doctor of Philosophy

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Abstract

After the 1997 financial crisis, the neo-liberal restructuring of the Korean political economy accelerated dramatically. While there is a general consensus that the reform has had negative consequences for Korean society, heated debates continue over the culprits of the 1997 crisis and the changes that followed in its wake. Major opinions have largely coalesced into two opposing camps: one, finding the cause in cronyism and the anachronistic management of the Korean *chaebols*, advocates market-centred economic reforms; the other, attributing the cause to the “unproductive” nature of foreign financial capital, suggests that the restoration of statist development model, in which the economy is led by the state-*chaebol* nexus, is a better way for Korean society.

The main reason for the asymmetry between the “progressive” critiques and “conservative” solutions of these two theoretical camps lies in their misunderstanding of the way in which power evolves in capitalist society. Their theories, which are premised on the dichotomy between “politics” and “economics,” are blind to the mutual transformation of capital and the state—to the historical changes in the nature of these institutions through the *commodification* of power.

The central assumption of this dissertation is that it is necessary to understand the mutual transformation of capital and the state and the evolution of the capitalist ruling class in order to grasp the nature of the post-1997 social restructuring. For this purpose, it adopts Nitzan and Bichler’s perspective of capital as power. From this perspective, situating our understanding of the 1997 crisis and the post-crisis restructuring in the context of the half-century-long evolution of capitalist power in Korea and the transformation of the regimes of differential capital accumulation, this dissertation makes three interrelated arguments.

It argues, first, that the post-1997 restructuring firmly entrenched capitalization as the *creorder* of Korean society. Second, it argues that globalization has incorporated Korea’s dominant capital into the global structure of absentee owners

through the trans-nationalization of ownership and accumulation. Lastly, it argues that the reduction of green-field investment, relative to the pre-1997 period, is to be explained by the shift of the regime of differential accumulation.

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The owl of Minerva spreads its wings only with the falling of the dusk.

- Hegel, *The Philosophy of Right*

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1

Introduction

Over the last 25 years, South Korea has undergone a rapid socio-political transformation. Perhaps the two most significant and symbolic aspects of this transformation were the fall of the military dictatorship in 1987 and the financial crisis of 1997. Both events brought about dramatic changes in the configuration of power in Korea. The former was the culmination of persistent political resistance from below against the authoritarian regime, while the latter was characterized by an offensive from above. As a result of the successful popular uprising in 1987, the power of the Korean ruling class was severely undermined. Even though the military dictatorship was not replaced by a revolutionary government, it seemed that no one could turn the clock back. Many people believed that power would shift from the authoritarian state apparatus to the electorate in the process of democratization. However, the financial crisis of 1997 changed the direction of the social restructuring. The ruling class forced ordinary people to bear the full brunt of the crisis and took advantage of the situation to enhance its control over Korean society. As a result of the “shock therapy” prescribed by the IMF, Korea underwent radical changes: a year after the Korean government had officially asked the IMF for a bailout, Korea’s financial markets, including the real-estate market, had been fully liberalized and deregulated. The neo-liberal restructuring of Korean society resulted in a massive upward redistribution of wealth and power. The ten-year period between the two events, whether by accident or by necessity, roughly coincided with the transition from the Cold War to the era of globalization. These parallel developments suggest that, to some extent, the political economic restructuring of South Korea might have been part and parcel of a broader change in the global order as a whole.

The primary purpose of this dissertation is to grasp the nature of Korea’s recent social transformation, symbolically marked by the two abovementioned social

conjunctures, from the perspective of *political economy*. The research situates the major social changes that have occurred since 1987—namely, the rapid development of formal democracy, economic crises, and the structural adjustment of the Korean economy and its social consequences—as part of a broader, three-pronged process:

- (1) the restructuring of capitalism on a global scale;
- (2) the evolution of Korean capitalism coupled with the formation of the Korean capitalist ruling class;
- (3) the changing nature of capital accumulation.

Above all, this dissertation attempts to critically examine the historical development of *the capitalist mode of power* in Korea during this period. By rigorously examining and redefining the concepts of “the state” and “capital,” as well as the relationship between them, it seeks to better grasp the nature of capital and the characteristic features of capitalist power as distinct from other modes of power. At the same time, by exploring the evolutionary process of Korean capitalism in some detail, this study tries to link socio-political changes with the process of capital accumulation.

What distinguishes this dissertation from existing studies on Korea’s recent transformation is, above all, the theoretical framework it adopts. Drawing extensively on Nitzan and Bichler’s theory of capital (2002; 2009), a perspective of political economy that sees capital as a mode of power rather than a mode of production, it tries to cast new light on the issue. One of the major premises of this dissertation is that it is necessary to overcome the dichotomy between “politics” and “economics” in order to grasp the nature of Korea’s recent social transformation. So far, in my opinion, most studies on the development of Korean capitalism tend to separate the realm of politics from that of economics and to attribute “power” to the former and “production” to the latter. In these studies, the “political” reform process catalyzed by the successful popular revolt of 1987 has been treated as if it had little to do with the “economic” reform process accelerated by the 1997 crisis. Based on Nitzan and Bichler’s “capital as power” approach, this dissertation tries to interweave the two reform processes into a single story. The dramatic social changes over the past 25 years—i.e. the fall of the military dictatorship, democratization, globalization, financial crises, economic restructuring, and intensifying social inequality—are understood as part and parcel of the evolutionary process of capitalist power.

To a large degree, the reorientation of Korean capitalism, which has become locally and globally integrated, was necessary as the restructuring of global capitalism got underway. Until the early 1980s, Korean capitalism had relied mainly upon rapid industrialization through the massive and oppressive mobilization of people in the broader context of the Cold War. In return for the strong anti-Communist stronghold offered by the Korean authoritarian regime, its allies, especially the US and Japan, provided Korea's ruling class with money, technology, industrial production systems, and access to their markets. Since the mid-1980s, however, the ruling class found it increasingly difficult to sustain this mode of accumulation. It faced strong popular resistance domestically and growing international pressure for liberalization and deregulation in the transition from the Cold War to globalization. At that crossroads, the ruling class seems to have reached a consensus to transform the regime of power. The new regime is characterized mainly by its more *flexible* and increasingly *trans-national* form, a form that results from the ruling class's efforts to expand its power, and not merely from the need to comply with the rules and regulations enforced by global capital. In this process, the military elite were forced to retreat from the central role it had played throughout the modern history of Korea. Yet that transition does not seem to have spelled much trouble for most of Korea's ruling class. The evolution of the capitalist mode of power in Korea has already reached the point where the ruling class as a whole can adjust to the new global and domestic socio-political circumstances. While Korea's ruling capitalists, transcending their parochial boundaries, have become integrated into the trans-national structure of *global absentee owners*, their power over the social process in Korea has become stronger than ever before.

The rest of this chapter outlines the social background covered in this dissertation; offers a critical review of two predominant approaches, neo-classical and statist developmentalism, to the transformation of Korea over the last generation; and explains the structure and major arguments of the chapters to follow.

The Social Background

Engulfed in the internal and external waves of social change, Korean society entered into an "organic crisis" in the Gramscian sense in the late 1980s. According to Gramsci, an organic crisis occurs when the ruling class undergoes a crisis of

hegemony and many social forces are struggling to create a new form of political and civil society (Gramsci, 1978: 210). 1987 was a watershed in the history of social formation in Korea. Previously, civil society in Korea had been so firmly under the state's control that it was effectively a means of mobilizing people for the ruling class. However, the crisis of the state apparatus in 1987 led to a crisis of hegemony throughout society, thereby creating a power vacuum. Many kinds of autonomous organizations representing various social groups mushroomed in virtually all realms of society so as to contend for a new form of state. At the same time, the Korean ruling class was under immense external pressure to structurally adjust the Korean political economy so as to make it compatible with the principles of neo-liberalism. The rapid changes in both domestic and global political economic circumstances led to an overall transformation of the power relations in Korean society. Many people believed that the power balance between the ruling class and the underlying population would shift in favour of the latter. Indeed it did—but only a little, and only for a while.

The financial crisis, which broke out abruptly in 1997, enabled the ruling capitalist class to turn the tables on the Korean people. Korean society, engulfed in a financial tsunami that originated in the collapse of the Thai baht, experienced the worst social disaster since the end of the Korean War. As the Korean currency and stock markets were rapidly destabilized, virtually all major business groups and banks teetered on the brink of bankruptcy. The crisis of the core set off a chain reaction in the whole business universe. Tens of thousands small- and medium-sized enterprises were forced to shut down. Consequently, more than one-million Koreans had lost their jobs a year after the Korean government had asked the IMF for a bailout: unemployment rose from 2.1 percent in October 1997 to 8 percent at the end of 1998. Yet the crisis was not all bad, at least for some Koreans. In hindsight, it turned out to be a good opportunity for the leading capitalist groups to enhance their interests. Taking advantage of people who fell on hard times, they won a “bloodless victory” in the radical restructuring of Korean society. Ordinary Koreans were powerless to stop the upward redistribution of wealth and power.

In the early 2000s—when the proposal for this dissertation was being prepared—the future of Korean society looked as uncertain as ever. The confluence of two apparently opposite flows of social reforms—i.e. progressive “political” reforms and conservative “economic” reforms—threw many Koreans into great

confusion. It was the Liberals¹ that caused this confusion. The Liberals, who were supposed to represent democratization and progressive social reforms, actively pushed ahead with neo-liberal policies such as liberalization, deregulation, privatization, and labour flexibilization. This was a huge disappointment to many Koreans, who had thrown their full weight behind the Liberals in the 2002 presidential election and the 2004 general election. Consequently, Koreans' enthusiasm and optimism for the future of their country turned into apathy or antipathy towards politics in general.

Since the fall of the military dictatorship in 1987, the major political concern of the so-called progressive-reformist camp² was *electoral revolution*. Many self-declared radicals expected power to shift from the authoritarian state apparatus to the electorate in the process of democratization. This power shift, they believed, would be fulfilled through an electoral revolution in which the reformist party, the Liberals, could become the ruling party and hold an absolute majority of seats in the parliament. It was also expected that the victory of the Liberals would usher in a new world that would include many socio-political reforms—such as increased spending on social welfare, environmentally friendly policies, greater self-determination (that is, greater “independence” from the US), and a breakthrough in the peaceful reunification of Korea, not to mention freedoms of speech and thought.

Certainly, rapid socio-political changes in Korea have occurred since 1998, when the Liberals became the ruling party. Yet it has gradually become clear that the changes are quite different from those that had been expected. First and foremost, people have realized that it was merely wishful thinking that the establishment of formal democracy would result in a shift of power from the authoritarian party to the electorate. Power *has* shifted, but not to the electorate. Second, whereas the increase

¹There are two major and several minor political parties in Korea at the moment. Yet, in my view, it would be more precise to categorize them as three tendencies on the political spectrum: Conservatives, Liberals and Labour. Over the last 25 years, major political parties have kept changing their names. At the same time, some factions within existing parties have created new parties, only to later merge with the parties from which they splintered. The Liberals are the major opposition party and have been regarded as a reformist political force. The Conservatives are a right-wing party and the ruling party at the moment. They are rooted in the party that ruled under the military dictatorship.

²In Korea, non-mainstream political groups ranging from the centre to the ultra-left on the political spectrum are usually categorized as the *progressive-reformist camp*. Yet the progressive-reformist camp is neither a consolidated organization nor a popular front. Rather, the term refers simply to non-mainstream political groups that sometimes coordinate socio-political campaigns. Because their politics tend to be a mixture of various strands of political traditions, including Marxism, social democracy, nationalism, liberalism, and so on, it is very hard to identify their political traditions precisely.

in public social spending³ has been unimpressive, the widening gap between the rich and poor has been conspicuous. The popular feeling that society is becoming increasingly polarized is supported by the higher Gini coefficient.⁴ Third, the Roh Moo-Hyun Government's election pledge to transform Korea's relationship with the US has not come to pass. In a sense, Korea's relationship with the US has become "tighter" than ever before. Roh's government has joined the US-led Coalition occupying Iraq⁵ in the name of the national interest. This move was regarded as backstabbing even by many of his supporters. Last but not least, many Koreans have been deeply disappointed by the government's failure to further the détente between North and South Korea. As the US took a hawkish position on foreign policy, North Korea also resorted to political and military brinkmanship, which culminated in an underground nuclear test in 2006. Under US influence, the Korean government has had to put on hold the Sunshine Policy⁶ that had been pursued by the Kim Dae-Jung government.

Nevertheless, the development of formal democracy has increasingly made Korea an "open society" in which all types of social problems are discussed openly, a situation that had not existed under the dictatorship. In the so-called "political" domain, a lot of "critical" discourses have poured out. The whole country is overflowing with fierce controversies among political and academic spin-doctors, both Liberal and Conservative. Disputes between the two parties in the parliament are often so heated that they have resulted in physical violence. However, these disputes have turned out to be much ado about nothing. The promised social reform has not come to pass. The Liberals simply took advantage of people's zeal for the democratic restructuring of Korea in order to become the ruling party. On the surface, the Liberals appear to be diametrically opposed to the Conservatives, but under the

³This public social spending involves social-policy areas such as old-age, survivors, and incapacity-related benefits; health, family, and active labour-market programs; unemployment; housing; and so on. According to the OECD, Korea's public social expenditures as a percentage of GDP is about 6 percent (as of 2006), which is far below the OECD average, which is around 21 percent (source: OECD, <http://www.oecd.org/>).

⁴As of 2007, Korea's Gini coefficient for household market income was 0.321, whereas it had been 0.258 in the early 1990s (source: Statistics Korea, <http://www.kosis.kr/>).

⁵The Korean government sent about 3,000 soldiers to Iraq. It was ranked third within the Coalition in terms of the number of soldiers sent: the Korean contingent, except for the UK troops that invaded Iraq along with the US troops, is the largest foreign military force supporting the US military campaign in Iraq.

⁶The Sunshine Policy was designed to induce North Korea to open up. It involved peace talks, economic and humanitarian aid, economic cooperation, capital investment, etc. The policy was initiated by former President Kim Dae-Jung, who succeeded in having a summit with Kim Jung Il, the leader of North Korea, on June 15, 2000. Many people thought that the reunification of Korea would be accelerated.

surface, in my view, the two parties have reached a tacit agreement on how to steer the country, and especially on how to restructure Korea's political economy.

While Koreans focused their political enthusiasm on the formal democratization of the state in hopes of restructuring power relations, Korea was engulfed by the relentless waves of neo-liberalism that reshaped capitalism on a global scale. Furthermore, the process of neo-liberal reform was rather violent and brutal towards ordinary Koreans. It was accompanied by a socio-economic crisis in 1997. The crisis was close to a social disaster of which the underlying population had to bear the full brunt. By contrast, Korea's ruling class turned the crisis into an opportunity to accelerate the neo-liberal reshaping of the country's political economy, thereby increasing its power. Consequently, the country has been increasingly integrated into the global market, an integration that has fundamentally altered the nature of Korean society as a whole.

Unlike the fierce disputes over "political" issues, government policies, and legal and institutional arrangements for the neo-liberal "economic" restructuring did not cause any controversy among politicians. It seems that the Liberals and Conservatives decided with one voice to see the neo-liberal phase of globalization as the natural course of things. They viewed it as rather unnecessary to discuss policies such as liberalization, deregulation, privatization, and labour flexibilization. Politicians of both parties seem to be completely mesmerized by the principles of the free market. Amidst the "political wars" between the parties, including the highly publicized impeachment of President Roh, much of the legislation for the neo-liberal restructuring of Korea was passed without substantial debate in the parliament. In this way, one of the most famous "state-capitalist" countries was turned, in a single decade, into one of the most faithful "market economies" in the world.

The Dominant Paradigm: Developmentalism and the Depoliticization of Production

Radical social reform often provokes strong reactions. Yet the "shock therapy" approach to Korea's economic restructuring in the wake of the 1997 crisis did not face strong resistance. Although many Koreans felt extremely humiliated, they were powerless in the face of the dramatic social and economic upheaval. In my opinion, an important reason for this powerlessness lay in the *poverty of theory*. Korean

leftism, which weakened rapidly in the wake of the collapse of the Soviet bloc, failed to come up with a new theory for the transformation of capitalism, both domestic and global. What is worse, many leftists converted to liberalism or conservatism during the 1990s; even the dominant discourse of the progressive-reformist camp has gradually been subsumed into mainstream perspectives, theoretically and politically. As a result, important political economic issues such as the process of capital accumulation, the distribution of income, and class struggles have increasingly been ignored.

This tendency was illustrated well in the recent controversy within the progressive-reformist camp over the cause of the 1997 crisis and the future of Korean capitalism. In the debate, the progressive-reformist camp was divided into two competing perspectives—“shareholder capitalism” and “nationalist corporatism,” respectively.⁷ The former perspective proposed the “democratic” control of the *chaebols*, the highly concentrated Korean conglomerates. The proponents of this perspective attributed the cause of the 1997 crisis to the economic concentration resulting from the tight-knit collusive relationship between politicians and *chaebol* owners. Relentlessly criticizing the state and the big conglomerates for their incestuous relationship, they argued that the *chaebols* must be restructured if Korea’s economy is to be stable and prosperous over the long term. Thus, they recommended several changes in an attempt to “upgrade” Korean capitalism. These recommendations included, first, weakening the *chaebol* owners by ending the corrupt relationship between politicians and entrepreneurs and separating management from ownership; second, protecting the rights of minority shareholders and putting the management under their supervision by increasing the transparency of corporate governance; finally, dismembering the *chaebols* into independent corporations (S. J. Kim, 2005; 2004; G. W. Kim, 2001; H. S. Jang, 1998).

By contrast, the supporters of nationalist corporatism looked upon foreign capital as the main cause of the 1997 crisis. Unlike domestic capital, they argued, most foreign capital is speculative financial capital that has no interest in the development of Korean industries; foreign investors pursue only short-term profits, so they will immediately withdraw their investments if a high rate of profit is not

⁷The two perspectives are also referred to as anti-*chaebol* reformism and nationalistic Keynesianism, respectively. Shareholder capitalism has been championed by PSPD (People’s Solidarity for Participatory Democracy), which is one of the most popular social-movement organizations in Korea (<http://www.peoplepower21.org/>). Nationalist corporatism is led by an organization called the CAS (Council for Alternative and Solidarity) (<http://postion21.jinbo.net/>).

guaranteed. This group further argued that Korea will be completely subjugated to foreigners' whims unless the state protects domestic industrial capital by heavily regulating foreign capital, especially financial capital. In order to defend the national basis of the economy, this group claims, capital, labour, and the state need to reach a compromise: in return for a guarantee to protect *chaebol* owners' control of the conglomerates, these owners will increase investment and create jobs; at the same time, the state will strengthen regulations on foreign capital (H. J. Chang, 2007; H. J. Chang and S. Jung, 2005).

Together, these two perspectives appeared to be very critical of the *chaebols*, foreign capital, and the state. In my view, however, they served to buttress rather than undermine the existing power structure. Their "progressive" discourses advocated either the myth of the free market or an imaginary national interest. Indeed, it is very hard to distinguish the so-called progressive discourse from the mainstream one. On the one hand, many advocates of shareholder capitalism, believing in "democratic" corporate governance, tended to welcome an increase in the foreign ownership of Korean corporations and the demand of "global standards" by foreign capital (H. S. Chang, 2004; S. J. Kim et al, 2007). On the other hand, many proponents of nationalist corporatism did not shy away from hailing the military dictatorship of the past for its statist industrial policies and the Korean *chaebols* for their successful green-field investments (H. J. Chang and S. Jung, 2005). They went on to argue that the *chaebols* need to be protected for national prosperity.

The main reason for the asymmetry between "progressive" critiques and "conservative" solutions, I think, lies in misunderstanding the way in which power evolves in capitalist society. To put it differently, both shareholder capitalism and nationalist corporatism were premised on the dichotomy between "politics" and "economics," and both were therefore blind to the mutual transformation of capital and the state, that is, to changes in the nature of these institutions through the *commodification* of power (a concept that is defined in the next chapter). This theoretical shortfall, in my view, originated from development theory,⁸ within which academic research on Korean capitalism has mostly been conducted.

⁸Development theory, also called development studies, is a multi-disciplinary subject involving economics, sociology, politics, cultural studies, etc. Owing to its broad scope, it is not easy to delineate its boundaries precisely. Nevertheless, the diversified studies are usually subsumed under two categories: theories of economic growth (or development economics) and theories of modernization (Haque, 1999: 49).

Development Theory

As Peter W. Preston (1985) sharply observed, development theory was the “ideological child” of US containment policy during the Cold War.⁹ In an attempt to reintegrate ex-colonies into the capitalist system of the West and forestall the expansion of the USSR, the US government encouraged its conservative academia to foster and disseminate the idea of *developmentalism*. Basically, development theory was designed to generate the *myth* that all backward countries would evolve into societies resembling the advanced Western countries. Indeed, flourishing as a result of its intimate association with international financial organizations such as the World Bank and the IMF, development theory has played a significant role in the “modernization” of Third World countries.

Under the strong influence of development theory, most political economic studies of Korean society have focused narrowly on the economic models of sustainable growth. Consequently, significant political economic issues such as capital accumulation, the evolution of the ruling class, ideology, and violence have largely been ignored. Furthermore, inextricably intertwined with nationalism, development theory has been the most effective and dominant ideology of the ruling class in Korea.

Initially, development theorists focused their concerns on Latin America.¹⁰ Yet the phenomenal economic performance of South Korea and other East Asian NIEs¹¹ between the mid-1960s and the late 1980s attracted great attention from both policymakers and academic analysts. Consequently, the geographical focal point of key debates in development theory shifted from Latin America to East Asia. During the 1980s, a large body of literature attempted to interpret the development of the East Asian economies. The two predominant approaches in this literature were neo-classicist and developmental state theories.¹² The theoretical concerns of the two

⁹The origin of development theory can be traced back to Latin America in the 1930s (D. Hunt, 1989: 44). Yet the dominant paradigm of development theory was undoubtedly shaped by Western European and North American academics during the Cold War. Nevertheless, development theory continued to focus mainly on Latin America until its interest shifted to the rapid industrialization of the East Asian countries.

¹⁰The actual results, *pace* development theory’s predictions, were nothing short of disastrous. As Hirschman (1981: 1), one of the most famous development economists, confessed, “development economics did much better than the object of its study, the economic development of the poorer regions of the world.” Consequently, development theory as a whole was in crisis, while dependency theory and neo-Marxism gained popularity in Latin America.

¹¹Newly Industrialized Economies. In the 1980s, “East Asian NIEs” usually referred to four countries: Korea, Taiwan, Hong Kong, and Singapore.

¹²From now on, “developmental state theory” and “theorists” will be referred to as “statism” and “statists,” respectively.

schools were focused narrowly on economic growth, which was measured mainly in GDP or GDP per capita.

Debates on the evolution of Korean capitalism took place as part of a broader inquiry into the political economy of East Asia,¹³ where several countries experienced a similar path of prolonged and seemingly sustainable economic growth followed by a sudden crisis in the late 1990s. In all cases, the debates seemed to revolve around the relationship between the state and the market—and, specifically, around whether the state’s extensive economic involvement was “market conforming” or “market distorting” (Kohli 1999: 93-4).

These two competing approaches were far from particular to the political economy of East Asia. Rather, within the field of development theory, the economic success and crisis of the East Asian NIEs provided the battlefield for the ongoing theoretical squabbles between neo-classicists and Keynesians.¹⁴ Basically, the former claimed that the East Asian NIEs’ market-oriented policy was the key to their economic success, and that strong state intervention caused the crisis of 1997. The latter, by contrast, contended that the reverse was the case.

To put it more specifically,¹⁵ neo-classicist arguments are predicated on Smith’s myth of the “invisible hand.” From this fundamental assumption, neo-classicists derive two guiding principles for development policies: *domestic laissez-faire* and *international free trade* (D. Hunt 1989: 295). These two principles are regarded as “categorical imperatives” for all economies. Any economic success is attributed to laissez-faire and free trade; any failure to state intervention.¹⁶ It is precisely this universal application of the two laws that characterized neo-classicist development theory.

¹³South Korea drew more attention than other East Asian NIEs for the following reasons. While Hong Kong and Singapore showed better economic performance in terms of GDP, their economic growth was not based so much on industrialization as on commerce. In addition, because they are city states, they were not conceived as suitable economic models for other Third World countries. In the case of Taiwan, its shortcomings lay in diplomatic relations. It was not recognized as an independent country.

¹⁴Precisely speaking, statism is comprised of various strands of political economic thought, including Keynesian economics, Friedrich List’s protectionism, Weberian understandings of bureaucracy, and realist IR theories. Nevertheless, by and large, the core of the statist analytical framework and policies is shaped by Keynesian economics.

¹⁵Even though many Korean theoreticians were involved in the debates between neo-classicists and statist, this chapter focuses on foreign literature, for it was foreign theorists who developed the theoretical frameworks of both approaches and initiated the debates.

¹⁶Therefore, if the economy gets into trouble, their analysis of the cause is always the same: political interference in the *self-regulating* market. Another possibility is market failure, but this possibility is considered by neo-classicists to be limited to specific areas of the economy rather than to its overall performance.

Not surprisingly, neo-classicists contended that the high and sustained growth rates of South Korea and other East Asian countries proved the superiority of the free-market economy (Friedman, 1980: 57). In other words, successful development was due solely to the “natural” benefits of the region’s market-centred economic structure involving free capital and labour markets, reliance upon private capital, and export-oriented industries. They further asserted that export-oriented industries in particular, which were regarded as the key to these countries’ success, proved the theory of “comparative advantage” (Balassa, 1981: 16, 351). In brief, “Policies of limited government intervention in the economy and outward-oriented trade strategy,” neo-classicists argued, “lead to a low level of price distortion, which thereby promotes efficiency” (Kiely 1998: 117).

Later, however, many neo-classicists could not but admit that the state played a part in the rapid growth of the region. State intervention in the East Asian NIEs was too obvious to be denied. Nevertheless, the neo-classicist belief in *laissez-faire* was not shaken in the least. “Success,” they argued, “has been achieved *despite* intervention” (Lal, 2000: 46, original emphasis). Success was possible, they went on to explain, simply because the positive effect of free trade with comparative advantage more than counteracted the detrimental effect of intervention. The neo-classicists even coined a new concept, “market-friendly intervention,” by which they meant that state intervention in the East Asian NIEs conformed to basic market principles, thereby allowing market forces to work properly (World Bank, 1993: 5).

Statism emerged partly as a critique of the neo-classical approach, and particularly of the way in which the latter neglected the positive role of the state in promoting sustained growth in East Asia. Chalmers Johnson (1982) initially developed statist theory with specific reference to Japan. He claimed that the Japanese government acted as a *developmental state* that “guides the markets” so as to achieve rapid economic growth, high productivity, and strong international competitiveness. Later on, writers such as Frederic C. Deyo (1987), Alice Amsden (1989), Robert Wade (1990), Stephen Haggard (1990), and Peter Evans (1995) extended statist theories to the analysis of other East Asian countries like Hong Kong, Singapore, South Korea, and Taiwan.¹⁷ Consequently, developmental statism came to

¹⁷There are some differences between these theorists. It is statist themselves who “rigorously” distinguish their theories from each other. Johnson’s theory is referred to as *guided market theory*; Wade’s as *governed market theory*; Amsden’s as *disciplined market theory*; and Evans’ as *embedded autonomy theory* (B. C. Lee, 2003a). The difference comes down to the extent to which the state

be conceived as the general economic model for late industrializers, a political economic system that was distinguished from both Western capitalism and Soviet-style state socialism. In addition, there emerged a tendency to treat East Asian countries like corporations, e.g. “Japan Inc.” and “Korea Inc.”¹⁸

The common denominator of these studies was the argument that the sustained growth of the East Asian economies was due to the idiosyncratic character of governments in the region. These governments targeted specific industrial projects, disciplined and privileged big entrepreneurs at the same time, and coordinated the efforts of individual businesses. The developmental state also pushed long-term productivity gains and technological sophistication.¹⁹ Above all, statist tended to attribute the resulting economic success to *the rationality of the state*, which subordinated the short-term interests of individuals to the long-term prosperity of the nation. In other words, the highly competent and autonomous national bureaucracies at the heart of developmental states defined their mission primarily in terms of long-term national competitiveness.²⁰

Amsden, one of the most renowned statist specializing in Korea’s political economy, drew attention to “price distortion.” Refuting the neo-classicist slogan, “get the price right,” Amsden (1989) argued that “getting the price wrong” played the most important role in the economic development of the East Asian NIEs in general, and of Korea in particular. Her criticism was specifically levelled at the contention in the *World Development Report 1983* that East Asian success was due to the low level of price distortion in the economy (Kiely, 1998: 118). “The state in late

intervenes in civil society, especially in the market. Yet, in my view, the differences are so negligible that the blunt exposition of their arguments given in the next paragraph is not problematic.

¹⁸Many early development theorists in the 1950s, such as Paul Rosenstein-Rodan, Walt W. Rostow, and Arthur Lewis, also recognized the need for state intervention in Third World countries to ensure rapid economic development and industrialization (Hirschman, 1981: 10). Yet they differed from the statist of the 1980s in that they tended to think of economic protection and planning by the state as only a temporary solution to the backwardness of the Third World. Once the developmental trajectory of these countries was well underway, state intervention would no longer be necessary.

¹⁹Amsden (1989) argued that this process in “late late capitalism” (the NIEs) was characterized by “learning rather than invention or innovation of significantly novel technology.” By rephrasing Gerschenkron (1962), Amsden intended to point out both the advantages and drawbacks of late development at the same time. To put it briefly, unlike England (which initiated industrial capitalism) and “late capitalism” (as in Germany and the US), which were marked by invention and innovation, respectively, the East Asian NIEs could enjoy industrial technology by simply adopting what had already been developed by advanced capitalism. However, being unable to acquire cutting-edge technology, they had difficulty getting into the most lucrative markets.

²⁰According to Peter Evans (1995), this is the feature of the “developmental state” that distinguishes it from the “predatory state” and the “inter-mediate state.” Unlike the developmental state, the predatory state (e.g. Zaire) exploits the private sector without any proper compensation; the inter-mediate state (e.g. Brazil) steers a middle course between the other two state types.

industrialization,” Amsden said, “has set relative prices deliberately ‘wrong’ in order to create profitable investment opportunities” (1989: 14).

Price distortion occurred through subsidies, preferential exchange and interest rates, direct price controls, and restrictions on incoming and outgoing movements of finance and direct investment. It was also a necessary element in the reciprocal relationship between the government and diversified business groups. In exchange for various types of subsidies, the state imposed performance standards on private firms. By “rewarding those who use subsidies ‘well’ with further help and withdrawing support from those who do not,” the government disciplined and privileged big business groups at the same time (Wade, 1992: 285). Therefore, the statist claimed, state intervention was not merely market conforming: it was the driving force behind the economic growth of the East Asian NIEs.

Indeed, price distortion through state intervention was the key word in the dispute between the neo-classicist and the statist schools. The controversy over the cause of the 1997 crisis also centred on this issue. Therefore, even though few had anticipated the crisis itself, it would not have been difficult to guess beforehand the logical underpinnings of both the neo-classicist and the statist analyses of the crisis.

From the statist perspective, the 1997 crisis was caused by the *disruption* of the state’s role as a rational planner and coordinator. The liberalization and deregulation of Asia’s capital markets since the end of 1980s, many statist argued, had served to undermine the state’s ability to coordinate individual businesses. Short-term individual interests, previously subjected to long-term national interests, got out of control. Eventually, deregulation ended up in the financial crisis. Neo-classicists, in contrast, laid the blame for the 1997 crisis on the state’s extensive intervention. These market fundamentalists maintained that the crisis stemmed from the inherent limits of market-distorting policies, which they characterized as “crony capitalism” and “over-regulation.” “Government-directed production,” claimed Alan Greenspan, “financed with directed bank loans, cannot readily adjust to the continuously changing patterns of market demand for domestically consumed goods or exports. Gluts and shortages are inevitable...” (quoted in Wade, 1998).

The Limits of Development Theory

There appeared to be an unbridgeable gulf between neo-classicism and statism. Certainly, the two schools, competing for hegemony within international financial

organizations such as the IMF and the World Bank, fought like cats and dogs over the political economic policies of Third World countries. Yet, in my view, the ostensible difference between the two schools has been exaggerated, while their common theoretical bases have been neglected. The theoretical concerns of both schools, which boiled down to the simple question of whether state intervention promotes or thwarts economic development, stemmed from one and the same *perspective*. As Cox (1986: 207) argued, “perspectives derive from a position...in social and political time and space” and “theory is always for someone and for some purpose.” A closer examination of the social ontological premises, theoretical assumptions, and ideological orientation that underpin neo-classicist and statist arguments reveals that the difference between the two schools is only superficial. Under the surface, they shared a wider framework of thought.

Specifically, both the statist and the neo-classical approaches were based upon a premise that Nitzan and Bichler (2002) call the dichotomy between “politics” and “economics,” a social ontological assumption that leads to the *depoliticization* of social production. Separating the realm of the economy from that of politics, both schools attributed “power” to politics and “productivity” to economics. From this perspective, both statist and neo-classicists assumed that development is independent of politics: socio-political processes merely work from the outside, serving to boost or hinder the economy. They ignored distribution issues among social classes and the structure of power underlying economic development.

Moreover, the point at issue is not merely a matter of research scope. The dichotomy also assumes that the state and the market have innate and independent logics. Neo-classical welfare economists, commonly without adducing any actual evidence, contend that the market mechanism, because of its efficient allocation of resources, automatic adjustment to changing conditions, and just distribution, automatically brings about the happiness of all members of society. Most often, this argument is based on an illusory mathematical beauty: the perfectly harmonious market represents nothing but a geometrical equilibrium that requires innumerable unrealistic assumptions.²¹ These assumptions are too implausible to provide neo-classical theories with any analytic power in the actual world. However, neo-classical

²¹Above all, human beings are reduced to atomized hedonists who pursue nothing but utility (or profit) maximization. The idealized market is conceived as being totally independent of the other spheres of social life. It is also presumed to be in perfect competition: not only are there a myriad number of buyers and sellers, but also no one is powerful enough to affect the market. In addition, this conception of the market assumes no uncertainty about the future, perfect knowledge of all possible alternatives, and an instantaneous shift from one static equilibrium point to another (see Hunt, 2002: 388).

economists turn this lack of realism into a normative principle. If the reality runs counter to their theories, they blame reality. For example, the increasing gap between rich and poor or the widening gulf between North and South that accompany the neo-liberal restructuring process is always attributed to the incomplete implementation of laissez-faire and free trade. A Procrustean bed is nothing compared to neo-classical sophistry.

Basically, statisticians differed from neo-classicists only in their belief that state intervention can be market conforming. Acknowledging the unstable nature of the market, they asserted that the rationality of the state makes up for the shortcomings of the self-adjust market. In fact, statist theories are predicated on an assumption as abstract and untenable as the neo-classicist assumptions. Statisticians looked upon the state as an autonomous rational agent that pursues the national interest and is independent of class relations. In this way, they even tried to depoliticize the state. This notion of the rational state was derived from the “theories of state autonomy” that were elaborated by some Weberian sociologists such as Peter Evans, Dietrich Reuschmeyer, and Theda Skocpol.²² These theories just rephrased, in a systematic manner, Max Weber’s ideal-type characteristics of bureaucracy; in turn, statist theoreticians absurdly applied them to authoritarian governments in East Asia.

In a sense, neo-classicism and statism are two sides of the same coin: the former attributes economic growth to mythical market mechanisms, whereas the latter attributes it to abstract state rationality.

Ironically, *depoliticizing* the realm of production is a quintessential part of the *political* strategy of the ruling class. By separating economics from politics, both statisticians and neo-classicists helped strengthen capitalist ideology. The neo-classicists, asserting that “economics is progressive and politics is retrogressive” (Gilpin, 1987: 30), pretended to be dealing with issues of universal human prosperity and working for the common good. In fact, by blurring the line between productivity and control over productivity, they tried to conceal the political nature of capital. Applying this neo-classicist perspective to South Korea, the integral power role of the state in economic growth, the massive mobilization of the Korean people for industrialization, the various means of violence, and the systematic exploitation of Korean workers become irrelevant to the development of Korean capitalism. On the surface, statist theories, by highlighting state intervention, appeared to overcome the economics-

²²See Peter Evans, Dietrich Reuschmeyer, and Theda Skocpol (eds.), 1985.

politics dichotomy. Yet underneath, the dichotomy remains intact. Indeed, by emphasizing the role of the state in generating and sustaining growth, statist fabricated a misleading image of the state: the state is conceived as if it were an institution for productivity, not an institution for power. Furthermore, in this way, statist hid capital and capitalists behind the state so as to divert attention from the class structure. The process of capital accumulation, the emergence and evolution of the ruling class, the distribution of income, the control of economic power, etc. were all ignored. The only research question is how the state, presumably acting in the “national interest,” led economic growth.

To sum up, both the neo-classical and statist studies on Korean capitalism concealed the political nature of capitalist development and thereby serve to strengthen the existing structure of social power. It is the dichotomy between *economics* and *politics*, corresponding to the separation of *productivity* from *power* that underpinned the two mainstream approaches in development theory. By depoliticising the domain of production, the two schools served to avert any theoretical concern from the evolution of the capitalist form of power and from the transformation of two key institutions of power, i.e. the state and capital. Furthermore, deliberately or not, they ended up hiding class relations, especially the formation and development of the capitalist ruling class. Therefore, the “antagonism” between the two schools needs to be regarded as a symbiotic relationship: the neo-classicist *normative idealism* reinforced and was reinforced by the statist *devious realism*.

Outline of the Dissertation and Major Arguments

This dissertation, offering an alternative to development theories, aims to cast new light on the evolution of Korea as a capitalist society, especially on its rapid political economic restructuring over the last 25 years. Separating the realm of “economics” from that of “politics,” developmentalism, both statist and neo-classicist, serves to conceal the fact that Korea’s rapid industrialization and high economic growth coincided with the development of capitalist power and class relations. Arguing that developmentalism and its underlying theoretical premise are the biggest barrier to grasping the nature of Korea’s half-century-long as well as recent social changes, the dissertation above all tries to shift our concern from *development* to *power*.

This study is organized into six chapters, including this introduction and the conclusion. Chapter 2 provides a brief sketch of Nitzan and Bichler's theory of capital as power, which this dissertation adopts as an alternative theoretical framework for understanding the development of Korean capitalism. From the perspective of capital as power, Chapter 3 sheds new light on the economic development of Korea and the emergence of the Korean *chaebols*. It focuses on the pre-1997 crisis period, which was marked by state capitalism and the Cold War. Chapter 4 examines the cause of the 1997 crisis, which catalyzed the radical restructuring of the Korean political economy. It attempts to situate the 1997 crisis within the context of the changing regime of capital accumulation, global as well as domestic. Chapter 5 tries to grasp the nature of the post-1997 restructuring. It argues that Korea's transition from state capitalism to market capitalism is characterized by the establishment of the ritual of *capitalization* as the *nomos* of Korean society through which state power is subsumed into the capitalist mode of power. At the same time, the Korean ruling capitalist class is incorporated into the structure of global absentee ownership. Let's delve just a little further into each chapter.

A New Approach to Development from the Viewpoint of Power

Chapter 2, in an attempt to come up with a radical approach to capitalist development, examines and re-defines key notions of political economy, including *capital*, *state*, *globalization*, and *the accumulation of capital*. In doing so, the chapter derives a theoretical framework that enables us to delve effectively into the evolution of the capitalist mode of power in Korea. Here, only the key aspects of the theoretical approach are sketched out briefly.

As mentioned above, this dissertation adopts Nitzan and Bichler's theory of capital (2009; 2002). Nitzan and Bichler argue, above all, that capitalism is a mode of power, not a mode of production, and that its central institution is capital. In conventional theory, capital is mostly defined as a material entity that produces commodities for its individual owners. Furthermore, it is presupposed that this means of production belongs to the realm of economics, and therefore that its operation is external to politics or power. In this framework, the market value of a company mirrors its overall productive capacity. Refuting the conventional view of capital both logically and empirically, Nitzan and Bichler suggest that capital needs to be understood as an *institutional complex* through which the ruling class shapes and

controls the social process as a whole. And the market value of a company symbolically represents that company's power, relative to other companies.

To put it more specifically, capitalism, like any other mode of power, has distinctive principles and patterns of social order according to which it organizes society. Nitzan and Bichler call this algorithm of social order *creorder* (the creation of order), a term that “connotes the paradoxical fusion of being and becoming, state and process, stasis and dynamism” (2009: 18). Capitalist society is distinguished from previous forms of social organization by its specific *creorder*, *capitalization*. Capitalization represents the discounted present value of risk-adjusted expected future earnings. The valuation formula itself is widely accepted and commonly used in financial markets around world and therefore does not require any special attention here. The point at issue is the question of what is represented by the formula. Nitzan and Bichler (2012: 6) argue that “each of its symbolic components—the expected future earnings, the risk that capitalists associate with these earnings, and the normal rate of return that they use to bring them to present value—is a manifestation of organized power” because all these components of capitalization are based not only on business arrangements but also on the entire spectrum of power institutions. They further argue that

Nowadays, every expected income stream is a fair candidate for capitalization. And since income streams are generated by social entities, processes, organizations and institutions, we end up with the “capitalization of everything.” Capitalists routinely discount human life, including its genetic code and social habits; they discount organized institutions from education and entertainment to religion and the law; they discount voluntary social networks; they discount urban violence, civil war and international conflict; they even discount the environmental future of humanity. Nothing seems to escape the piercing eye of capitalization: if it generates earning expectations it must have a price, and the algorithm that gives future earnings a price is capitalization. (2009: 158)

From this perspective, we come up with a new relationship between the state and capital as well as between politics and economics. “The state” does not stand external to “capital.” Rather, the two entities are regarded as two institutional facets of one integrated social process. In other words, through capitalization, “the legal-

organizational entity of the corporation and the network of institutions that make up government” have been incorporated into “part and parcel of the same encompassing mode of power” (Nitzan and Bichler, 2009: 8). The power of the state, by influencing differential capitalist earnings and risk, becomes a facet of capital, and state organizations and institutions have been increasingly conditioned and shaped by the logic of capital. In turn, the mutual transformation of the state and capital through their historical interaction makes it meaningless to separate the realm of economics from that of politics.

Nitzan and Bichler’s theory of capital, by situating the recent wave of globalization in the context of capitalist power and accumulation, also provides a new understanding of it. From their viewpoint, globalization is the trans-nationalization of capitalist power on a global scale through the spatial integration of ownership and accumulation. During the 1990s, “capital started breaking through its national envelopes en masse, and as the corporation gradually lost its national identity, its investors slowly became transnational owners” (Nitzan and Bichler, 2002: 275). Indeed, Korea’s recent transformation is characterized first and foremost by the trans-nationalization of capital. Korea has been globally and regionally integrated from the very outset of its modern history. Like many other peripheral and semi-peripheral countries, Korea emerged from the political arrangements made by the superpowers in the post-war period. Furthermore, to a great extent the subsequent development of Korean capitalism was reliant on foreign capital, but there were high barriers to foreign ownership: until recently, virtually all companies were domestically owned. As a result of neo-liberal globalization, a substantial part of corporate ownership in Korea has fallen into the hands of foreign investors, and the accumulation basis of capital has increasingly become global.

Based on Nitzan and Bichler’s theory of capital, this dissertation tries to offer a better understanding of Korea’s evolution as a capitalist society in general and its recent transformation in particular. The key aspects of its analyses and major arguments, which are organized in three chapters, are briefly outlined below.

The Establishment of the Capitalist Social Order: The Era of State Capitalism

Chapter 3 deals with the history of Korea’s power structure. It offers an empirical analysis of the evolution of Korean capitalism, especially during the pre-1997 period, which is usually defined as the era of state capitalism. While mainstream research on

the topic has centred on rapid industrialization and high GDP growth rates, this chapter tries to shift our attention from *development* to *power*. From the perspective of capital as power, the chapter tries to integrate certain key socio-political phenomena, including the Cold War tension in the Korean Peninsula, military dictatorship, and rapid industrialization, into one single story, namely the evolution of the capitalist mode of power in Korea. Moreover, exploring the historical structure²³ that Korea's ruling class has created in its effort to defend and consolidate its power within a specific world order, it attempts to show how the qualitative process of social power has been quantified into the accumulation of capital. For these purposes, the analysis of the development of Korean capitalism is centred on the emergence of the Korean *chaebols*.

The thrust of the arguments in Chapter 3 is twofold. First, Korea's dramatic economic growth was a means to an end that was not the promotion of welfare for Koreans but the establishment of the capitalist mode of power. The process of industrial development through rapid *proletarianization* was a particular *regime of accumulation* that the ruling class conceived as the best way to increase its power. Second, the key to Korea's successful capitalist development over the past half-century was the *strategic sabotage* of industry in the Veblenian sense—a deliberate *limitation* on the productive capacity of society. Strategic sabotage enables a capitalist (or a group of capitalists) to prevent others from accessing profit flows. Korea's *chaebol* system is the culmination of this sabotage.

As developmental economists have argued, Korea achieved dramatic economic growth under the military dictatorship. Korea's real GDP (constant 2000 \$US) rose 16-fold from \$28.9 billion in 1960 to \$460 billion in 1996 (one year before the 1997 crisis). During this period, Korea's GDP growth rate averaged 8 percent per annum, which was more than twice as high as the average annual growth rate of world GDP. As a result, Korea's contributions to world GDP, measured by the ratio between Korea's GDP and world GDP, grew fourfold over the same period: from 0.4 percent in 1960 to 1.63 percent in 1996. Dramatic as the overall growth of the Korean economy was, it paled in comparison with the expansion of the Korean *chaebols*. For example, according to Samsung (1998), the book value of Samsung's total assets

²³A historical structure is "a picture of a particular configuration of forces" rather than a group of social *entities* with predetermined laws of motion (Cox, 1996: 97). This approach emphasizes the changing nature of any social structure. In other words, the concrete character and form of state and capital are determined by political struggles among various social groups over the course of a social formation. Moreover, this view implies that the notion of social classes itself needs to be understood as the dynamic product of the integrated social process of *material capabilities, ideas, and institutions* (ibid).

increased from 1.6 billion KRW in 1960 to 83 trillion KRW in 1996—a 52,980-fold²⁴ increase! As of 2012, Samsung Electronics, the core of the Samsung Group, ranked twentieth in *Fortune Global 500* in terms of revenue and twenty-fifth in terms of net profit.

How was it possible for a small corner shop in the world's poorest country to become one of the world's largest business groups? Was this success due to “innovative entrepreneurship” in the Schumpeterian sense or the “rationality” of the market? Chapter 3 tries to answer these questions from the perspective of capital as power. By illuminating the *correlations* between the accumulation of capital and the underlying power institutions and arrangements, it aims to show how *qualitative* power processes are *quantified* into relative asset prices. More specifically, the emergence and development of the *chaebols* was assisted not by growth and productivity as such, but by differential power over the social process as a whole, a process that involved violence, war, massive mobilization, various oppressive apparatuses, and systematic networking between politicians, bureaucrats, and key businessmen. Through this process of capital accumulation, on the one hand, state and capital have been integrated into the same mode of power; on the other hand, the heterogeneous fractions of Korea's *power bloc* have gradually been incorporated into a single ruling class. The development of the modern state in Korea has been inextricably intertwined with the *commodification* and *privatization* of power, power that in turn has been appropriated mainly by *dominant capital*,²⁵ the *chaebols*.

The 1997 Crisis and the Restructuring of Power

Chapter 4 examines the causes of Korea's 1997 financial crisis. The cause of the crisis should be sought neither in the “revenge” of the market (over-regulation) nor in the “whim” of speculative financial capital (under-regulation). Instead, this chapter suggests that the crisis was part of a broader transition of the regime of capital accumulation that reshaped capitalism on a global scale. Whether by accident or by necessity, this transition coincided with the outbreak of strong class struggles in Korea. Thus, the chapter tries to prove the following two hypotheses. First, the 1997 crisis was the culmination of the structural adjustment made by Korea's dominant

²⁴ In real terms, the book value of Samsung's total assets increased a 462-fold.

²⁵ “Dominant capital,” “the commodification of power,” and “differential accumulation” are the conceptual pillars of Nitzan and Bichler's theory of capital and are defined in the next chapter.

capital to democratization and globalization, a political economic restructuring that was inevitable because Korea's dominant capital had reached the outer limits of its corporate universe. Second, and therefore, an analysis of accumulation on the part of Korea's dominant capital may offer a better understanding of the crisis. The chapter offers an empirical study of the *chaebols'* accumulation crisis based on Nitzan and Bichler's analytical framework for capital accumulation.

Over the last three decades, South Korea has undergone a rapid socio-political transformation. It was the demise of the military dictatorship, in my view, that acted as a catalyst for the transformation. The fall of the dictatorship was the culmination of persistent political resistance from below against the authoritarian regime. Consequently, the power of Korea's ruling class was severely undermined. Beginning in the latter half of the 1980s, the ruling class faced the emergence of strong labour and social movements demanding democratization and redistribution. At the same time, the ruling class was also under international pressure to structurally adjust the Korean political economy so as to make it compatible with the principles of neo-liberalism under the banner of globalization. Previously, Korean capitalists under the aegis of authoritarian governments had been virtually free of pressure from labour movements and foreign capital. Now, though, the double movement of democratization and globalization put them under immense pressure. These internal and external pressures left Korean capitalists with little choice. In order to survive, they had to devise a new mode of capital accumulation, quite different from the previous one.

Yet the Korean ruling class did not simply respond passively to changing circumstances. Making use of the changing circumstances, they actively initiated and implemented neo-liberal reforms in order to shape the transition of Korean capitalism in their own interests. In contrast to popular wisdom, according to which the neo-liberal restructuring of the Korean economy resulted solely from the IMF's *external* pressure, there was also strong *internal* pressure for the reforms. Korea's dominant capital, i.e. the *chaebols*, after several decades of intensified concentration, had grown too big to be contained within national boundaries. Furthermore, by the early 1990s, they ran out of the major resource for their accumulation, the cheap "surplus" labour pool. In order to continue accumulating differentially, Korean dominant capital had to move into a larger business universe.

The 1997 crisis broke out in the middle of the transformation of the regime of capital accumulation. Korea's *chaebols* as a whole were on the brink of collapse in

the aftermath of the crisis. Certainly, the high debt-to-equity ratio and the rapid build-up of short-term debt, which originated from either endemic cronyism or neo-liberal deregulation, or both, were the immediate causes of the crisis. Yet the financial aspects of the crisis should be understood within the broader social context of capital accumulation and political domination. Chapter 4 argues that the 1997 crisis was caused by three social changes: (1) the global shift of accumulation coupled with the transition of the world order from the Cold War to globalization, (2) the changing balance of power among various social groups, not only between capital and labour but also within the ruling class, and (3) the limits of the existing accumulation regime (i.e. *proletarianization*), which Korea's dominant capital had pursued since the early 1960s.

The Transformation of Korean Capitalism in the Post-1997 Period

Chapter 5 deals with the restructuring of Korea's political economy in the aftermath of the 1997 crisis. The main purpose of this chapter is to examine the following three hypotheses. First, Korea's transition from "state capitalism" to "market capitalism" is characterized not by the retreat of the state, but by the establishment of the ritual of *capitalization* as the *nomos* of Korean society. Through this process, the various fractions of Korea's power bloc became amalgamated into a coherent ruling class that sees the world from a singular viewpoint, while state organs and institutions were incorporated as components of the capitalist mode of power. Second, contrary to the popular nationalist view, the neo-liberal globalization of Korea should be defined not as the subjugation of Korea by "foreign financial capital" but as the *trans-nationalization* of capitalist power through the spatial integration of ownership and accumulation. By removing the barriers to foreign capital, the core ruling capitalists attempted to transcend their national boundaries and establish a trans-national structure of *absentee owners*. Lastly, the intensification of social polarization in the wake of the 1997 crisis has resulted from the transformation of the regime of accumulation by Korea's dominant capital. In an attempt to overcome downward pressure on profits, the *chaebols* have increased strategic sabotage against other social groups. Their new accumulation strategy, by massively redistributing wealth upwards, has intensified social inequality.

Above all, Chapter 5 tries to draw special attention to changes in the ownership structure of Korean dominant capital. In the wake of the 1997 crisis,

Korean dominant capital has been rapidly *trans-nationalized*. Giving priority to the attraction of foreign investment, the Korean government completed its plan for liberalization and deregulation ahead of schedule. Furthermore, foreign firms and investors were given various tax incentives such as lower corporate, property, registration, and income taxes. Consequently, a large volume of foreign capital surged into Korean financial markets. By 2004, foreigners owned more than 40 percent of the stock market in terms of capitalization, compared to less than 5 percent prior to the 1997 crisis. As far as the 10 largest *chaebols* are concerned, in 2005 foreigners possessed about 50 percent of their stocks in terms of market value. The degree of foreign ownership in the banking sector is even higher. At its 2007 peak, the foreign share of the seven major commercial banks accounted for 65 percent of the total. The government's control of "city banks" used to be one of the most characteristic features of the Korean political economy. Today, it is marked by foreign control over the banking sector.

The rapid increase of foreign ownership provoked a backlash against foreign investment. Strongly critical of the government for selling out "national ownership," some in the progressive-reformist camp demand the protection of "national capital." They argue that foreign investors have no interest in developing Korea's industry and instead care only about short-term profits. They also argue that foreign speculators may suddenly withdraw their money under certain circumstances, thereby bringing socio-economic disaster to Korea. Therefore, they argue, the government should protect the vested interests of Korean capitalists, especially the *chaebols*, in order to preclude any potential crisis; in return for this protection, the capitalists will keep investing in Korea's industries.

In my view, these nationalism-tinged arguments are premised upon the imaginary dichotomy between "industrial capital" and "financial capital." On the one hand, those advancing these arguments regard "domestic capital" as industrial capital that pursues the development of national industries. On the other hand, they hold that foreign capital is mainly financial capital interested only in profiteering. It is true that struggles among capitalists for the control of Korea's big conglomerates have intensified. Yet the vying for control does not mean that domestic capitalists represent the national interest. Nor does it mean that these capitalists pursue Korea's industrial development. Rather, both domestic and foreign capital want to increase their power over the social process and have that power quantified in pecuniary terms.

It should be noted that competition between capitalists, regardless of their nationality, is not always conflictual. Some capitalists seek to build coalitions in order to advance their common interests in opposition to other groups. Indeed, it has turned out that Korean dominant capital is a beneficiary rather than a victim of neo-liberal globalization. For an example, according to the Korean Exchange, the market value of the listed corporations belonging to the 10 largest *chaebols* increased from 35 trillion KRW in 1998 to 636 trillion KRW in April 2011—an 18-fold increase. Furthermore, the market value of the stocks possessed by the primary owners' families controlling these business groups increased from 937 billion KRW in 2000 to 28 trillion KRW in 2011—a more than 30-fold increase!

“Battle lines” should be drawn not between “domestic industrial capital” and “foreign financial capital” but between trans-nationalized dominant capital and the underlying population. In the aftermath of the 1997 crisis, the Korean ruling class accelerated neo-liberal deregulation, liberalization and labour flexibilization. Through these institutional rearrangements, the ruling class enhanced its control over Korean society while forcing ordinary people to bear the full brunt of the crisis. Consequently, social inequality in Korea has increased significantly.

To sum up, Chapter 5 offers an alternative to the statist account of Korea's political economy. It sees the increase in the foreign ownership of Korea's dominant capital as part and parcel of the trans-nationalization of power on a global scale. Situating the transition of Korean capitalism in the broader context of the universalization and standardization of commodified power, this chapter examines how Korea's core ruling capitalists, changing their mindset, have attempted to turn themselves into trans-national *absentee owners*.

2

New Approach to Development: The Viewpoint of Power

This chapter introduces a new approach to “economic development.” As mentioned in the previous chapter, political economic discourse on Korean capitalism has been shaped by developmentalism, which, by removing *power* from *capital*, serves to ideologically strengthen the capitalist ruling class. Developmentalism has been so widely accepted among Korean intellectuals that even many “progressive” Korean political economists are under its influence. For instance, in their debates on the desirable future of the Korean political economy in the wake of the 1997 crisis, they have ended up advocating either shareholder capitalism or nationalist corporatism. Only a few diehard leftists, who emphasize the integral role of state power, geopolitics, and the exploitation of the people in Korea’s capitalist development, try hard to politicize the realm of production. This chapter aims to examine and develop the theoretical approaches adopted by the left to try to understand the Korean political economy.

For this purpose, the chapter reviews Nitzan and Bichler’s theory of capital (2009; 2002). By carefully discussing Nitzan and Bichler’s understanding of capital, the state, globalization, and the accumulation of capital, it examines their theoretical breakthrough in understanding the characteristic features of capitalist power. In order to do so effectively, this chapter compares Nitzan and Bichler’s theory of capital with the Marxist theory of capital. The focus of the comparison is centred on the difference in their theories of value, the cornerstone of the theory of capital. After pointing out some shortcomings of the Marxist *labour theory of value* that I think circumscribe the explanatory power of the leftist theories of capital, this chapter explores Nitzan and

Bichler's *power theory of value* and their analytical framework for understanding capitalist development.

The chapter begins with an examination of Marx's theory of capital, which, in one way or another, has shaped the paradigm of virtually all leftist political economists. It argues that Marx's labour theory of value does not fit into his objective to grasp the nature of the power of the capitalist ruling class. Indeed, Marx was interested in power, but he viewed production as the key to understanding that power. This focus led him to articulate capitalism as a mode of production, not a mode of power, which in turn created a mismatch between two aspects of his theory of capital—one qualitative and the other quantitative. Power pervades the former but is absent from the latter. More specifically, the broad process of social power, especially the role of the state in capitalist development, does not really enter into the scope of his quantitative analysis of capital. The magnitude of capital in money terms and its rate of accumulation represent only "socially necessary abstract labour." Consequently, in my opinion, this discrepancy between the qualitative and quantitative theory of capital spells trouble for leftist approaches to political economy that attempt to offer an integrated theory of power by embracing "economic," "political," and "ideological" power at once.

I think that this weakness of the Marxist theory of capital can be overcome by Nitzan and Bichler's theory of capital. Their theory is distinguished from others, above all, by the way in which they understand capital. They define capital *as power*. Nitzan and Bichler (2009: 3), by emphasizing that they "use not *and*, but *as*," draw close attention to the difference between the two terms, a difference that they think is hardly trivial. Typically, capital is defined as a material entity that produces commodities. Even leftists' approach to capital, which emphasizes the social relations that underlie it, tends to confine capital to the realm of economics in the first place, and then tries to politicize it by theorizing its relation to the state, politics, and ideology. Nitzan and Bichler, characterizing this traditional leftist approach as "capital and power," suggest an alternative, i.e. "capital as power," which sees capital itself as a mode of power. In their view, capital is not a material entity (or dead labour) but an *institutional complex* through which the ruling class shapes and controls the social process as a whole. And the magnitude of capital represents neither its overall productive capacity nor abstract labour, but the power of capital over society as a whole. It is this quantification of capitalist power in pecuniary

values, i.e. *capitalisation*, that distinguishes capitalism from other historical modes of power.

Let's delve deeper into Nitzan and Bichler's theory of capital after briefly examining Marx's understanding of capitalism.

Marx's Attempt to Grasp the Nature of Capitalist Power

Unlike mainstream economists, leftist political economists understand production in connection with class and power. Conceiving politics and the economy as "dialectically intertwined" social processes, they criticize mainstream developmentalism for concealing the political nature of the economy. Moreover, they look upon the exploitation of "productive" labour by capital as the driving force behind global as well as domestic politics. Although there are various schools of leftist political economy, almost all draw on Marx's theory of capital. Therefore, a brief examination of Marx's framework for understanding capitalism seems to be a good starting point for our attempts to provide a radical alternative to developmentalism.

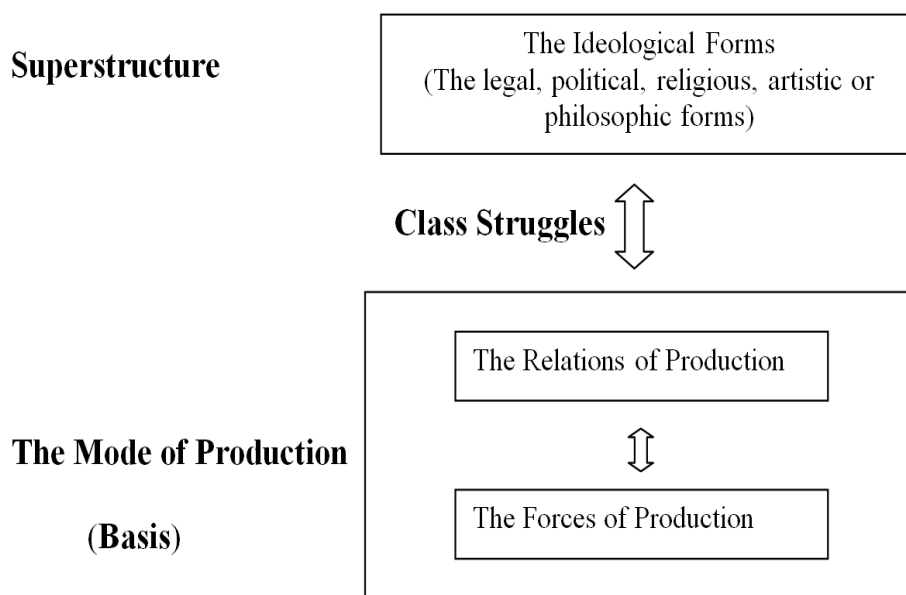


Figure 2.1 Marx's General Framework for the Study of Social Formations

In the Preface to *A Contribution to the Critique of Political Economy*, Marx introduced his framework for research on capitalist society, a framework that came to be called “historical materialism.” The gist of his approach can be illustrated succinctly in Figure 2.1. His main preoccupation was the historical evolution of power in general and the capitalist form of power in particular. Arguing that “a legal and political superstructure” is bound up with “the relations of production,” which, in turn, correspond to “a given stage in the development of their material forces of production,” Marx (1859: 4) focused his attention on property relations and the way in which the products of social production are appropriated by the ruling class.

The relations of production are particularly important for the analysis of power in capitalist society because ascribed hierarchical status have gradually been abolished. Thus, Marx put an emphasis on “the anatomy of civil society” where *private property* and the *commodification* of social production and reproduction increasingly gain *normality* and *universality*. By explaining the way in which the newly emerging capitalist ruling class controls other classes, he sought to debunk the myth of freedom and equality in the capitalist world and provide a “scientific” ground for social revolution.

Marx’s social anatomy culminated in *Capital*.¹ For Marx, capital was first and foremost not merely a material thing used in production processes but the *reification* of *social relations*, a definition that fits well into the abovementioned general framework. Therefore, his theory of capital cannot be properly grasped without understanding what the reification of social relations means in capitalist society. As addressing the whole gamut of Marx’s theory of capital goes beyond the scope of this chapter, let me examine it focusing on the three conceptual building blocks of his theory—*value*, *commodity fetishism*, and *primitive accumulation*—with which I think Marx “deconstructed” the notion of capital and demonstrated it to be the reification of social relations.

First, Marx’s theory of value was designed to decode “ ΔM ,” the accumulation of capital. By identifying the accumulation of capital with nothing but surplus-value,² Marx tried to reveal the capitalist exploitation hidden under the veneer of the “equal”

¹Among the six proposed titles that Marx mentioned in the Preface, i.e. *Capital*, *Wage-Labour*, *Landed Property*, *The State*, *Foreign Trade*, and *World Market*, only the first was completed, and only after his death. Only the first volume of *Capital* was published before he passed away; most of Marx’s work was published posthumously.

²In Marx’s own terms, ΔM is defined as the difference between the value of (abstract) labour and the value of labour-power. The capitalist class appropriates all the results of labour, the value of labour, while paying labourers only for the value of labour-power, “the value of the means of subsistence necessary for the maintenance of the labourer” (1887: 119).

commodity relationship, expressed in monetary terms, between “free” buyers and sellers. Basically, he held that while the form of capital assumes the pecuniary value of self-aggrandizement, which is briefly expressed in $M \rightarrow C \rightarrow P \rightarrow C' \rightarrow M'$ (or $M + \Delta M$), the content of capital represents capitalist power over the process of social production and reproduction, i.e. the relentless restructuring of society to which both workers and nature are subordinated. The never-ending cycle of $M \rightarrow C \rightarrow P \rightarrow C' \rightarrow M'$ is the *categorical imperative* of capitalism from which even the capitalist class is not free. Furthermore, the whole dominant political and ideological system, i.e. the superstructure, of capitalist society *arises from* and in turn *supports* this process.

Second, the concept of commodity fetishism is intended to *demystify* the capitalist value system, which is a central component of the *dominant ideology*. Capital as the reification of social relations is best explained by this notion, without which, as Marx mentioned in Chapter 1 of *Capital I* (1887: 26-58), his theory of value cannot easily be distinguished from those of the classical economists.

Commodity fetishism is the social belief that the pecuniary value of a product is as inherent a part of it as weight and colour are natural attributes of a thing. The appearance of *equivalence* between commodities exchanged through the market mechanism creates the false belief that the relationship between market participants, including wage-labourers, is one of equality.

This social phenomenon, Marx held, is the reification of a specific relation of production “in which the producers in general enter into social relations with one another by treating their products as commodities and values, whereby they reduce their individual private labour to the standard of homogeneous human labour....” As a result, “the categories of bourgeois economy... are forms of thought expressing with social validity conditions and relations of a definite, historically determined mode of production, viz., the production of commodities” (ibid, 1887: 49-50). By identifying the *material foundation* of the value system, Marx simultaneously delineated the *historical limits* of the value system and confirmed the *validity* of the labour theory of value within capitalist social relations. It has to be noted that “material” means the objectification of the *bourgeois mindset*, which “becomes a material force” once “it has gripped the masses” (Marx, 1843: 5).

Lastly, Marx used primitive accumulation to debunk the myth of the origin of *private property*, that is, the relations of capitalist production in legal terms. Marx showed his critical view of conventional wisdom by paraphrasing it as follows:

In times long gone by there were two sorts of people; one, the diligent, intelligent, and, above all, frugal elite; the other, lazy rascals, spending their substance, and more, in riotous living. The legend of theological original sin tells us certainly how man came to be condemned to eat his bread in the sweat of his brow; but the history of economic original sin reveals to us that there are people to whom this is by no means essential. Never mind! Thus it came to pass that the former sort accumulated wealth, and the latter sort had at last nothing to sell except their own skins. And from this original sin dates the poverty of the great majority that, despite all its labor, has up to now nothing to sell but itself, and the wealth of the few that increases constantly although they have long ceased to work. Such insipid childishness is every day preached to us in the defence of property. (1887: 500)

With regard to capitalist ideology, Marx made two points. First, the accumulation of wealth *per se* in various forms such as money, commodities, and the means of production is not capital. Their transformation into capital takes place only under certain circumstances: “two very different kinds of commodity-possessors must come face to face and into contact,” viz. the owners of the means of production and the sellers of labour. Therefore, primitive accumulation was “nothing else than the historical process of divorcing the producer from the means of production” (ibid: 501). Second, the actual historical transition to capitalist social relations was not a peaceful process, but an era of massive social upheavals. Conquest, pillage, confiscation, massacre, etc., played the integral part in the emergence of these new social relations and the accumulation of wealth. Therefore, Marx argued with emphasis, the great transformation of feudalism into capitalist society would have been impossible without “the power of the State, the concentrated and organised force of society. Force is the midwife of every old society pregnant with a new one. It is itself an economic power” (ibid: 500).

Although the three abovementioned concepts constitute only a small portion of Marx’s theoretical edifice, undoubtedly they lie at the root of his revolutionary ideas, which have shaped the dominant discourse of radical socio-political movements around the world. Throughout the last century, they were also at the centre of almost all leftist controversies on the characteristic features of capitalist power—debates on exploitation, accumulation, crises, the relationship between capital and the state, and imperialism. If we closely look at the history of leftist debates on these issues, we can

see that they are vertically interconnected, like a “food chain.” Exploitation is at the bottom, imperialism at the top. Recent debates on “new imperialism” in the two symposia held by the editorial board of *Historical Materialism* have confirmed that current controversies continue to revolve around these concepts and their interrelationship (2006, vol.14; 2007, vol.15). In order to come up with a cogent theory of (new) imperialism, the relationship between capital and the state has to be defined properly; the conceptualization of accumulation is the key to defining this relationship; an economic crisis is the other side of the coin of capital accumulation, which is identified with the exploitation of labour.

Shortcomings of Marx’s Theory of Capital

If the Marxist labour theory of value, i.e. a theory of exploitation and accumulation, cannot prove its plausibility, the whole chain of leftist theories will be in trouble. So far, unfortunately, leftist political economists have not succeeded in clearly showing the validity of the labour theory of value in the sense that it does not enable us to quantitatively analyze the accumulation of capital in terms of labour value. More specifically, in the Marxist analytical framework the magnitude of capital and the rate of accumulation are supposed to be measured in units of “abstract labour,” i.e. socially necessary labour-time. The ability to measure abstract labour is essential for leftist politics because the identification of capitalist accumulation with the exploitation of labour offers a “scientific foundation” for social revolution. Yet leftists’ century-long efforts to validate the labour theory of value have been in vain: they have not solved the so-called transformation problem. In this regard, I think that Marx’s as well as leftist political economists’ attempts to theorize the nature of capitalist power are incomplete.

This shortcoming arose from a discrepancy between the two axes of Marx’s theory of capital (i.e. qualitative and quantitative), which, in turn, originated from Marx’s failure to completely break with the bourgeois cosmology prevalent at his time (Nitzan and Bichler, 2009). While Marx defined capital as the reification of social relations and argued that it cannot exist independently of politics, ideology and the state, his quantitative analysis of capital relied solely on a material determinant, i.e. abstract labour. While the broad process of social power is central to his explanation of the historical evolution of capital, he excluded it from the quantity of

capital. Nitzan and Bichler (ibid: 92) argue that this duality resulted from “Marx’s analytical framework,” which “was hostage to the mechanical worldview of static equilibrium.” On the one hand, “he attempted to understand the transformative dynamics of social conflict—the very antithesis of mechanical equilibrium.” On the other hand, he tried to “mimic physics and chemistry in his labour theory of value.”

Let’s examine a bit more closely how the “mechanical worldview” in Marx’s quantitative theory of capital limited his attempts to theorize the nature of capitalist power.

Paradigm, Normal Science, and Anomaly

It seems that the history of leftist political economy does not deviate from the “structure of scientific revolutions,” a pattern in the historical development of science described by Thomas Kuhn (1996). Kuhn argued, first, that the development of (natural) science is not characterized by the continuity or accumulation of knowledge so much as by its discontinuity, viz. by paradigm shifts that result from theoretical struggles in the community of scientists. Second, he argued that a dominant paradigm has strong resilience. So “when scientists confront anomaly,” instead of rejecting their theory, they tend to “devise numerous articulations and ad hoc modifications of their theory in order to eliminate any conflict” (ibid: 78). As a result, theories under an ailing dominant paradigm have a tendency to become more and more complicated. Third, because of this tendency, many times in the history of natural science, *mathematical simplicity* has played the central role in shifting toward a new paradigm. Kepler’s conversion to the Copernican paradigm³ may be one of the best exemplars of his argument.

³Kepler is regarded as one of the most important figures in the modern scientific revolution. His three laws of planetary motion paved the way for Newton’s law of universal gravitation. Yet without Tycho Brahe, to whom Kepler was an assistant, this epoch-making work would have been impossible. Kepler largely stole Tycho’s data when he died. Tycho was so ingenious that he was able to build the most advanced observatory at the cutting edge of astronomical technology at the time and thereby collect enormous amounts of new data. He found that many planetary motions did not fit into the Ptolemaic geocentric model of the universe, which was still the dominant paradigm at the time. The most controversial issue of the Ptolemaic model was the epicycle theory, which was designed to explain the backward movement of planets, especially Mars. Yet Tycho was reluctant to discard the Ptolemaic paradigm. He combined the Ptolemaic model with the Copernican model, a mixed system in which all planets except the Earth go around the sun; at the same time, the moon and the sun go around the Earth. Although Tycho could provide a solution to the epicycle problem, not only was his eclectic system rather difficult to follow, but it also caused other anomalies that contradicted his observations. In contrast to Tycho, Kepler converted to the Copernican paradigm, which enabled him to offer a much simpler but more accurate explanation of planetary motion, an explanation that culminated in the abovementioned three laws.

Although he was deeply influenced by Smith and Ricardo, Marx's approach to capital was completely different from theirs. It is not simply that Marx ingeniously turned the labour theory of value, which had been developed by classical economists, into a criticism of the bourgeoisie. Originally, the labour theory of value was designed to highlight the parasitic nature of the aristocracy, i.e. the absentee owners of land, and to justify profit accruing to capital. As mentioned in the previous section, Marx's theory of capital was developed from a very new perspective, i.e. historical materialism, which Louis Althusser (1969) referred to as an "epistemological break." From the perspective of historical materialism, the commodity value system represents a social consciousness that is bound up with a specific mode of production, viz. a commodity-producing society where products are made "solely for exchange for money in the market" (Hunt, 1979: 187). The value system is constructed by a mindset of the bourgeoisie, whose social relations occur through the market mechanism.

In spite of his ground-breaking social ontology and epistemology, Marx fell short of completely breaking with Smith and Ricardo in his theory of value. In my view, because historical materialism locates the nature of social entities in historically specific social relations, Marx's theory of value should have sought socio-political "determinants" of commodity value and profit. In other words, the value system of commodities should have been understood as the reification of the *bourgeois mindset*, which wants to convert its power over social processes into numbers. Instead, in his actual analytical framework of commodity value, Marx developed a theory that was premised on a belief that the value of commodities was determined materially and thereby could be measured in material terms, i.e. labour time. Marx's labour theory of value, influenced by Newton's mechanical worldview, presupposed equilibrium and looked for an "immutable substance" that was supposed to underlie the value of commodities (Nitzan and Bichler, 2004a: 14). Marx, a radical in every sense, could not go beyond the *Zeitgeist*, the spirit of the age.

The inconsistency between his social ontology and theory of value gave birth to a theoretical "anomaly" with which so many leftist political economists have had to wrestle. I have in mind particularly the transformation problem in the labour theory of value: a system of price denominated in monetary terms is to be derived from a system of value measured in abstract labour. This issue has caused heated controversy ever since Marx published *Capital*. Despite numerous attempts to solve the problem, no one has offered a satisfactory, let alone commonly accepted, solution.

Consequently, the labour theory of value can hardly play a role in quantitatively analyzing the accumulation of capital.

The transformation problem, in its nature, is similar to the *measurement problem* in the neoclassical model of income distribution, revealed in the Cambridge Controversy. “Since [Marxists’] notion of capital,” hold Nitzan and Bichler (2009: 12), “just like the neoclassical one, is anchored in the ‘economy,’ they end up falling into the same materialistic traps.” Although Marxists stand in opposition to neoclassicists, the two groups implicitly share the assumptions that the value of a commodity is determined by productive inputs and that accumulation can be measured in material terms. Mainstream economists, identifying several factor inputs of production, i.e. labour, land, and capital,⁴ have tried to determine the quantitative productivity (i.e. *utils*) of each factor input and to calculate the pecuniary value of that productivity. In the case of leftist political economy, labour is regarded as the sole factor of production that begets new value; in other words, only human labour is a productive factor input in the production process. Leftist political economists, assuming that all forms of concrete labour can be reduced to homogeneous abstract labour, have tried to calculate the value of a commodity in terms of the amount of socially necessary abstract labour needed for its production and, in turn, to transform its labour value into pecuniary value.

Yet neither the mainstream economists’ nor Marxists’ attempts have been successful. The neoclassical utility theory of value was refuted, as Sraffa and the ensuing Cambridge Controversy demonstrated the both infeasibility of quantifying capital in the neoclassicist analytical framework and the *circularity* in the neoclassicist attempt to solve the problem. To put it briefly, in marginal productivity theory, the real income earned by each factor input is equal to its marginal product, so the rate of profit is allegedly equal to the marginal product of capital. Thus, neoclassicists hold, capitalist income is to be calculated by multiplying the rate of profit by the amount of capital. Yet when it comes to the amount of capital, the heterogeneous nature of capital goods makes it impossible to have an aggregate amount of capital. Therefore, there is no way to measure the amount of capital in the first place. A solution offered by neoclassicists is to add up the money values of all

⁴Here, the classical labour theory of value is not dealt with separately from the neo-classical utility theory of value. While classical economists conceived human labour as the leading factor among the three, neo-classical economists, discarding the centrality of labour and combining marginalism with the factor-input theory, attempted to prove that the income of each factor is exactly proportional to its marginal contribution to production. Despite this difference, the latter can be regarded as a mathematically elaborated form of the former.

different kinds of capital goods. However, this solution turns out to be fatal to the utility theory of value as a whole because it reverses the direction of causality that neoclassical economics assumes between the rate of profit and the amount of capital. The money value of a capital good is to be calculated by dividing the expected profit by the rate of profit. Yet, according to the marginal utility theory, the rate of profit should be dependent on the amount of capital used. Therefore, the solution violates the theory's key assumption (Hunt, 2002: 530-1).

Although the Marxist labour theory of value seems immune to these capital-goods-related problems, it has a similar problem: it has to translate various forms of labour with different levels of skill into a common denominator, simple abstract labour. Even if it were to be possible to reduce various kinds of concrete labour to simple abstract labour, the Marxist labour theory of value would face another difficulty, that is, the diversity of the organic composition (or the ratio of capital to labour) indifferent industries.⁵

Marx's solution to this problem was premised on unrealistic assumptions such as perfect competition and the free flow of capital and labour—and therefore an “equilibrium profit rate and equilibrium prices of production” (Howard and King, 1992: 278). Even if these assumptions are allowed, the solution faces another difficulty: it should find a *numeraire* commodity (or invariable measure of value), a notion defined as a commodity that was produced with a socially average ratio of capital to labour.

Marx knew that the exchange value (or price of production) of an individual commodity differs from its value because of the various organic compositions of capital; that only the price of a *numeraire* will be equal to its value.⁶ “With such a *numeraire*,” Marxists argue, “total surplus value expressed as surplus labor would continue to be an accurate measure of the exchange value of profits” (Hunt, 1979: 215). Marx failed to find this *numeraire*, though, and so far no one else has claimed to succeed in this mission. Had a *numeraire* been found, what it could have told us in

⁵The discovery of the problem itself dates back to Adam Smith, who tried to prove his belief that commodity prices were proportional to, if not determined by, the amount of labour embodied in the commodities. However, he gave up the labour theory of value when he realized that his idea was not tenable because the organic composition of capital in reality differed among the various industries. Smith's theory of prices ended up as “an ‘adding-up theory—a summation (merely) of three primary components of price,” i.e. rent, profit and wage (Hunt, 2002: 52). Ricardo, by contrast, was very keen to tackle the issue. His solution to the problem was not so different from Marx's.

⁶The exchange value of the *numeraire* is not affected by the changes in wages and profits; the aggregate exchange value of all commodities measured in the *numeraire* will remain unchanged because the aggregate price-up of all commodities produced with a lower-than-average ratio of capital to labour would be exactly offset by the price-down of all commodities produced with a higher-than-average ratio.

terms of a quantitative analysis would have been nothing but that the sum of prices equals that of values—that the aggregate of surplus value is equal to the aggregate of profits.

Some Marxist political economists, facing technical difficulties and partly admitting the unrealistic nature of the labour theory of value, “have retreated into qualitative value analysis,” which only emphasizes the purpose of value theory, i.e. revealing exploitative *social relations* by debunking the fetishism of commodities (Howard and King, 1992: 283, original emphasis). However, this attitude amounts not only to abandoning the quantitative analysis of capital as a whole but also to undermining the objective of the theory, which is to reveal the power structure of capitalism. For capitalist power is expressed only in a financial form.

The Bifurcation of Politics and the Economy

The transformation problem seems to be an “anomaly” that reveals the fundamental limits of the Marxist theoretical framework for capitalist power. Yet it is not the only problem circumscribing the explanatory power of leftist political economic theories. Even when we assume that the transformation problem has somehow been solved, it is not clear, within the Marxist framework, how the realm of economics (or the process of exploitation and accumulation) is linked to the realm of politics (or the process of oppression). Specifically, whereas Marxists emphasize that the accumulation of capital is grounded in the control of the entire social process, involving the sheer force of the state and legal and institutional arrangements, their analytical framework for capital accumulation fails to embrace these broader power processes. In their actual quantitative analyses, the power of capital is confined to the distribution of income between capital and labour within industrial-commodity production in a narrow sense. To put it differently, by defining ΔM as “the value of unpaid labour,” the quantitative analysis of capital accumulation is confined to the closed circuit of industrial production. Thus, the broader social processes of power do not fall within the scope of the Marxist quantitative analysis of capital accumulation, as a result of which they remain *analytically external* to capital.

This, in turn, has hindered leftist efforts to specify the link between the state and capital and to grasp the nature of the capitalist state. Although most leftists tend to emphasize the integral role of the state in the accumulation of capital, in reality the narrow scope of their quantitative analysis of capital accumulation makes it very hard

for them to theorize the connection between the two. Throughout the twentieth century, leftists were mired in never-ending debates on the nature of the state: the key question was whether the state is class-biased or autonomous, which was succinctly expressed in the “accumulation or legitimation” positions, respectively (Clarke, 1991: 6). As capital accumulation analytically relies solely on unpaid abstract labour, the state in effect always remains “external” to capital. Unless state policies directly influence industrial production processes, the connectedness between state and capital is only “circumstantial.” Consequently, “legitimation” often seems as if it had little to do with “accumulation.”

Lastly, the unsettled relationship between the state and capital in turn creates uneasiness about how to conceptualize imperialism in the capitalist world. The aforementioned two symposia on new imperialism have affirmed this. Whether they are fruitful or not, in my view the leftist debates on imperialism fall short of addressing the more fundamental problem with their premises. All of them begin with a separation of “politics” and “economics.” For example, Ellen Wood asserts that “to speak of the separation of the political and economic in capitalism means not only that there is an autonomous economic sphere such as never existed before but also that there is a distinctive kind of *political* sphere” (2006: 16). Harvey (2003), who assumes a separation of “the capitalist logic and the territorial logic of power” but recognizes “accumulation by dispossession,” does not move far away from Wood. However intimately “connected” they may be, the state continues to belong to the political sphere, capital to the economic sphere.

This attitude errs in conflating the *institutional division* of labour between the state and capital with the *separation* of politics and economics. Unlike the former division, the latter is ontologically impossible. The failure to “comprehend the ‘holistic’ quality of the social process in general and the ‘industrial system’ in particular” precludes leftist political economists from offering a workable analytical framework for the accumulation of capital (Nitzan and Bichler, 2004a: 14). Neither those who stick to only “accumulation by economic means” nor those who add “accumulation by dispossession” address how accumulation can be measured or how a borderline between the two kinds of accumulation can be established analytically. Vast as it is in terms of scope, the leftist theoretical edifice as a whole cannot but be shaken unless these questions are answered.

To sum up, within the Marxist tradition, the transformation problem has been addressed as if it were a matter of technical or mathematical puzzlement. This

approach has only added theoretical complications. An effective solution to the problem, in my view, can be found only if the inconsistency between Marx's ontology and theory of value is resolved. The problem, and its solution, might be likened to "mathematical simplicity" in the paradigm shifts within natural science. Only a theory of value that seeks socio-political determinants of commodity value and profit can accomplish Marx's objective of grasping the nature of the power of the capitalist ruling class. This theory, in turn, will enable leftist political economy to offer an *integrated theory* of "economic," "political," and "ideological" power and to rebuild the leftist theories of exploitation, accumulation, crises, the relation between capital and the state, and imperialism on stable ground.

For these reasons, it seems worth paying attention to Nitzan and Bichler's *power theory of value*, which, in my opinion, effectively sorts these problems out and thereby makes a breakthrough in theorizing accumulation, the relationship between the state and capital, and imperialism.

The Power Theory of Value

Nitzan and Bichler, by critically examining the neoclassical and Marxist theories of capital, put forwards a systematic alternative that sees capitalism as a mode of power and capital as its central institution—an institutional complex through which the ruling class controls, shapes, and transforms "society against opposition" (2009: 17). Their theory of capital is built on what they call *the power theory of value*, which basically holds that the value of a commodity and the magnitude of capital do not originate from the material sphere of production and consumption but from the *nomos*, "the broader social-legal-historical institutions of society" (ibid: 148-9). Under capitalism, value is no measured in *utils* or *abstract labour*. Instead, the capitalist value system is the symbolic representation of *capitalist power* over the social process.

Although critical of Marx's labour theory of value, Nitzan and Bichler acknowledge that their approach to capital is in line with Marx's "notion of capitalism as the *political* regime of capital" (ibid: 14). Yet their theory of capital is based on a social ontology different from Marx's. Though Marx wanted to establish a totalizing explanation of the social process, he began with a separation of "politics" and "economics," and also with a bifurcation between a "real" sphere of material

production and consumption and a “nominal” sphere of money and finance (ibid: 25-33). Arguing that the fundamental limits of the Marxist theory of capital arise out of these dualities, Nitzan and Bichler emphasize the holistic nature of the social process in general and the production process in particular. In their view, it is ontologically impossible to separate economics from politics or the nominal from the real; therefore, any attempt to transform the contribution of the material constituents of a commodity’s production into a pecuniary value is doomed to fail.

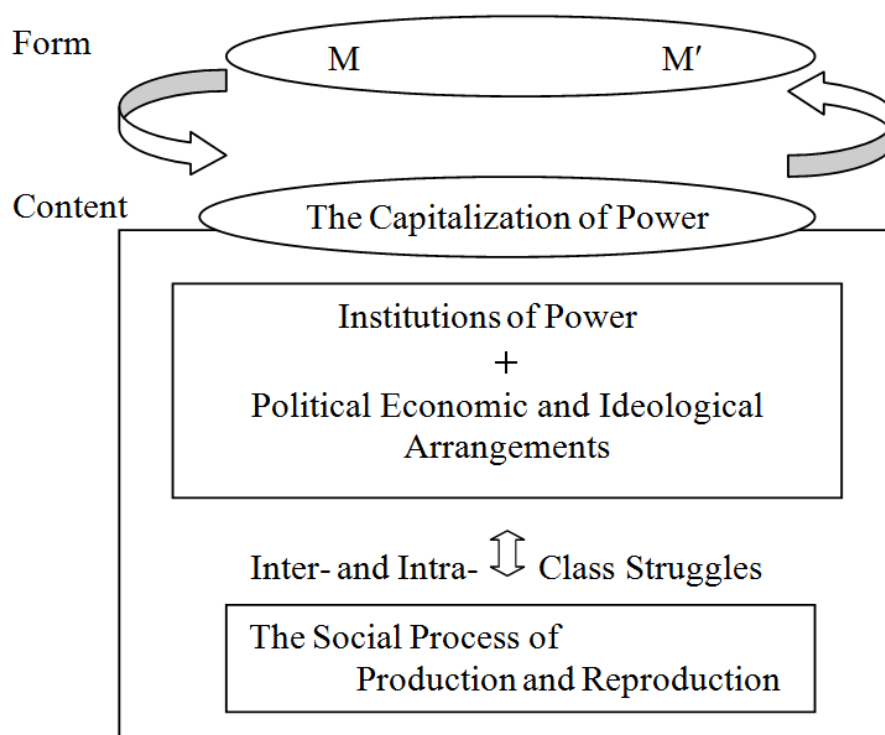


Figure 2.2 Nitzan and Bichler’s Framework for the Analysis of Accumulation

To put it more specifically, Nitzan and Bichler, rephrasing and extending Veblen’s idea, argue that production and productivity are “inherently societal”; that every product is “like a hologram,” “embodying within it the entire history of human knowledge” (2002: 34). Therefore, the “individual productivity” of separate input factors of production cannot be measured; by extension, neither can the pecuniary value of that supposed individual productivity be established. Wages, rent, and profit do not correspond to the separate “contributions” of labour, land, and capital. As for the Marxist labour theory of value, it is virtually impossible to translate various forms

of labour into simple abstract labour and to transform the labour value of a commodity, however measured, into its pecuniary value.

Instead of these “bottom-up” approaches, Nitzan and Bichler suggest that we should try to link “the quantitative nature of profit and accumulation” with “qualitative power institutions” by identifying the political economic arrangements and processes that shape the differential accumulation of particular capital groups. In comparison with Marx’s general framework for capital in Figure 2.1, Nitzan and Bichler’s can be illustrated as in Figure 2.2.

Specifically, while capital as an abstract financial magnitude stands for the discounted value of future earning capacity, earnings are determined by “the power of capitalists, operating against opposition, to strategically shape the societal process to their own ends.” From this perspective, “the accumulation of capital represents neither material wealth, nor a productive amalgamate of ‘dead labour,’ but rather the *commodification of power*” or, more precisely, “the *capitalization of power*.” Furthermore, the accumulation of capital is “the consequence not of *productivity* as such, but of the *control of productivity*, which is in turn based not only on *business arrangements*, but on the *entire spectrum of power institutions*” (ibid: 11-39, original emphases).

In terms of Marx’s commodity fetishism and primitive accumulation, Nitzan and Bichler’s theoretical starting point seems to be the same as his. They emphatically hold that the value system is nothing but “a manifestation of what the ancient Greeks called the ‘nomos’—that is, of the broader social-legal-historical institutions of society” (2006: 8). Furthermore, they go on to argue that

... the primacy of power in capitalism is rooted in the centrality of private ownership. “Private” comes from the Latin *privatus*, meaning “restricted,” and from *pri-vare*, which means “to deprive.” In the words of Jean-Jacques Rousseau: “The first man who, having enclosed off a piece of land, got the idea of saying ‘This is mine’ and found people simple [minded] enough to believe him was the true founder of civil society” (Rousseau 1754: Second Part). The most important feature of private ownership is not to *enable those who own*, but to *disable those who do not*. Technically, anyone can get into someone else’s car and drive away, or give an “order” to sell all of Warren Buffet’s shares in Berkshire Hathaway. The sole purpose of private ownership is to prevent us from doing so. In this sense, private ownership is wholly and

only an act of exclusion, and exclusion is a matter of power. Exclusion does not have to be exercised. What matters is the *right* to exclude and the *ability to exact terms for not excluding*. These “terms” are the source of accumulation. (2004a: 19, original emphases)

Indeed, these arguments strongly echo Marx’s conceptualization of the value system as the reification of social relations and his emphasis on exclusion with regard to the origin of private property. However, the path of Nitzan and Bichler’s theory of value diverges from those of Marx and other leftists when they define the *unit* and *pattern* of *social order*. In Nitzan and Bichler’s framework, there is no need for any abstract or imaginary unit of accumulation such as *utils* or *socially necessary labour*. Price itself is regarded as the unit of the capitalist social order in which everything commodified, not to mention private property and industrial products, is denominated (2006: 1).

As for the pattern of order, i.e. the way in which the value system is structured, Nitzan and Bichler hold that it is “governed by the process of ‘*capitalisation*’—that is, the discounting into present value of expected future earnings.” Capitalization, they further say, is “the ‘generative order,’ to use David Bohm’s term, through which the capitalist order, denominated in prices, is created and re-created, negotiated and imposed (2004a: 17, emphasis in original). From this perspective, which is not confined to the realm of industrial production, the scope of capital accumulation extends *spatially* to the whole social process; *temporally*, in contrast to the Marxist backward-looking notion, it is forward looking in the sense that future earnings are discounted into the present value.

In my view, Nitzan and Bichler’s power theory of value seems to fit better into Marx’s notions of commodity fetishism and primitive accumulation than the labour theory of value does, because it enables us to sort out the tension between the qualitative and quantitative analyses of value in Marx’s theory of capital. It also serves well the primary objective of Marx’s theory of capital—that is, to grasp the characteristic features of the capitalist form of power. Thus, in an attempt to put forward a theoretical framework adequate for understanding the recent transformation of Korean capitalism, the rest of the chapter draws on Nitzan and Bichler’s power theory of value and tries to reconstruct the leftist theory chain from exploitation to imperialism. Note that this chapter offers only the characteristic features of the

newly-built theory chain; different issues such as accumulation, the relation between the state and capital, and globalization will be discussed in the following chapters.

Exploitation and Accumulation

It might be helpful to begin this section with a brief recapitulation of the basic assumptions on which a new theory chain is to be built. Above all, “production is a holistic process and hence cannot be expressed as a function of individual inputs in the first place” (Nitzan and Bichler, 2009: 82). Second, the value system in capitalist society represents the *nomos*, i.e. the social order, the unit of which is price and the pattern of which is capitalization. In other words, the value system is the “first language” of the capitalist ruling class, a language in which the relative size of this class’s power over the social process is denominated in monetary terms.

From this perspective, the exploitation of labour is not *directly* linked to the accumulation of capital in the Marxist sense—i.e. in the sense of the financial transformation of surplus value, viz. unpaid socially necessary abstract labour, accruing to the start-up cost. Instead, Nitzan and Bichler’s power theory of value suggests a broader and more comprehensive approach that dissociates the language of *creativity* from the language of *power* (2009: 220). This distinction corresponds to the separation of *industry* and *business*, a separation that is based on *workmanship* and the *predatory instinct*, respectively, in Veblen’s terminology. Paraphrasing Veblen, Nitzan and Bichler (ibid) argue that “Whereas the former requires integration, cooperation and planning throughout society,” “the latter depends and thrives on conflict and antagonism among owners and the underlying population.” The value system in capitalist society is the numerical codification of the social order in which creative industry has been increasingly subjugated by predatory business.

It is in this *broader* sense that accumulation rests on “exploitation.” To put it more precisely, accumulation, expressed as the increase in the capitalized value of private ownership, is based on exploitation not in the narrow sense that the value is the direct representation of labour time consumed in the manufacturing process and appropriated by capitalists, but in the broader sense that it is the denomination of the “distributional claim” of the ruling classes to the “community’s overall productivity.” This distributional claim is “manifested partly through ownership, but more broadly through the *whole spectrum of social power*” that encompasses all kinds of legal and

institutional arrangements that regulate not only the production process, but the whole social process (ibid, original emphases).

Differential Accumulation

This way of decoding ΔM does not undermine the importance of exploitation at all. Rather, it extends the scope of capitalist exploitation and accumulation. It becomes redundant to draw a borderline between “unproductive” and “productive labour,” between “fictitious commodities” and “commodities proper,” and between “accumulation by dispossession” and “expanded reproduction.” Nor is it necessary to share the unrealistic assumptions of mainstream economics, such as equilibrium price and the perfectly competitive rate of profit. As discussed earlier, capitalist exploitation and accumulation in the Marxist paradigm originate in the sub-sphere of industrial production. In addition to the analytical bafflement and unrealistic assumptions of this approach, its ambivalent attitude towards the holistic quality of social production and reproduction leads to the troubling conclusion that exploitation in other sectors and social spheres in effect is external to the accumulation of capital.

Moreover, this compartmentalization of the social process does not fit into the logic of power. “To rule,” note Nitzan and Bichler (2009: 21), “means to see the world from a singular viewpoint, to be locked into a unitary logic, to be subservient to your own architecture of power.” As other forms of power have been increasingly subsumed into the capitalist form of power, i.e. into *commodified power*, the pattern of the capitalist order permeates the whole society; its principles are universally imposed on all the sectors of society. In my opinion, Marxist political economists have overlooked the transformation of the social character that the social relations of capitalist production have stamped on products. As the capitalist class “ascended the throne,” their power over the *entire* social process—and increasingly on *every* aspect of the social process—began to be quantified into value.

The conceptualization of the value system as the language of power makes possible a new analytical approach to the accumulation of capital. First of all, it suggests that accumulation is to be analysed differentially. This proposition is articulated well in Nitzan and Bichler’s concept of *differential accumulation*, which is derived from the essential characteristic of power—namely, that power is measured in relative rather than absolute terms. The ruling classes in pre-capitalist societies tended to measure their power by comparing the amount of land they controlled, the

number of slaves and soldiers they possessed, the amount of tribute they collected, etc. Modern capitalists do the same thing—with an important difference: capitalists, unlike their predecessors, are not so much interested in the material quantity of their assets as in their monetary value. “Capitalists are impelled not to maximise profit as such,” Nitzan and Bichler argue, “but to ‘beat the average’; they measure their differential accumulation as the difference between the growth rate of their own assets, and that of the average”⁷ (2002: 11).

Secondly, the relative measurement of accumulation necessitates a differential approach to the owners of commodified power. In capitalist society, which is seemingly “classless,” without the differential measure of accumulation we can hardly identify who really rules the world. Although private property is no doubt central to capitalist power, in and of itself it is too general a measure through which to identify the ruling class. It cannot, on its own, tell us the qualitative difference between the owner of a small sweatshop and Bill Gates, for example. By the same token, analyses of the accumulation of capital in aggregate terms inevitably fall short of explaining the dynamic process of the formation of the capitalist ruling class. Capitalists’ contention for power creates “centrifugal as well as centripetal forces” and thereby prompts the relentless formation and reformation of “distributional coalitions.” This dynamic of power culminates in the emergence of *dominant capital*, defined as “the largest and most profitable corporate coalitions at the core of the social process” (ibid: 40). The power of the ruling capitalist group, strategically shaping the social process in its own interest through institutional as well as business arrangements, is quantified in the monetary value of the assets of dominant capital. Therefore, research on capital accumulation is inseparably linked to a study of the emergence and formation of the ruling class in a capitalist society.

The differential approach to capital and capitalists fits well into the development of a *dual political economy*, which refers to the polarization of a political economy into “big business and organized labour,” on the one hand, and “the small economy and unorganized workers,” on the other (Nitzan and Bichler, 2002: 117-22). This phenomenon is one of the most common features of contemporary capitalism. The notions of differential accumulation and dominant capital are certainly important for an analysis of Korea’s political economy, which is above all

⁷The attribute of a high or low rate of profit cannot but be a relative concept. For example, a rate of return of 100 percent, taken on its own, cannot be defined as high or low. If the average rate is 150 percent, a rate of 100 percent is low. Therefore, in reality, the maximization of profits means that capitalists attempt to beat their benchmark.

characterized by the extraordinary concentration of power in the hands of the *chaebols*.

Thirdly, the power theory of value suggests that the accumulation of capital should be measured in terms of “the price of assets, here and now,” which is constantly being re-valuated through capitalization (Nitzan and Bichler, 2006: 8). More specifically, $M+\Delta M$, i.e. accumulation, is defined as the increase in the pecuniary value of an asset, that is, “the present value of the earnings the asset is expected to generate” (2004a: 18). This proposition can be formulated in the following equation, which consists of four elementary particles: (1) the future flow of earnings, (2) investor’s “hype” concerning such earnings, (3) the risk factor associated with the expected earnings, and (4) the discount rate⁸ used to bring the expected risk-adjusted earnings to their present value (2006: 12).

$$\text{Capitalization} \equiv \frac{\text{future earnings} \times \text{hype}}{\text{risk} \times \text{discount rate}}$$

It is worthwhile mentioning that, at this point, the analytical approach to accumulation suggested by Nitzan and Bichler completely diverges from those of other leftists—to an extent reminiscent of what Thomas Kuhn called the *incommensurability* between competing paradigms. As a technical concept, the methodology of differential accumulation can be adopted by other schools without changing their notions of capital. Yet the understanding of the capitalist social ontology on which the concept of capitalization is premised is so distinctive that we are asked to choose one of the two ways of defining $M+\Delta M$ —either in terms of capitalization, or in terms of recorded book value at historical or current replacement cost.

One key issue is the time dimension of accumulation. As mentioned in passing, capitalization is a forward-looking notion, while the bookkeeping notion of capital is backward-looking in the sense that accumulation is calculated by adding up the already-determined ΔM to the recorded value of assets. From the forward-looking viewpoint, capital is accumulated *before* production is *commenced*. What capitalists capitalize is not actual earnings but their *expectation* of earning streams. Thus, the amount of money initially invested in “real” assets has little to do with accumulation.

⁸It is the normal rate of return that “capitalists believe they can get by investing in so-called ‘riskless’ assets, such as U.S. government bonds” (Nitzan and Bichler, 2004a: 18).

To put it differently, the market value of M (of $M+\Delta M$) can be more or less than the original investment. It may range from null to a mindboggling amount, depending on the social circumstances that influence capitalist expectations regarding the future flow of earnings as well as the other particles of the capitalization formula.

The new approach to the accumulation of capital adopted in this dissertation can be summarized in the following analytical formulation.

1. The *differential power* of capital (DPK) possessed by a particular group of owners should be measured relatively by comparing the group's combined capitalization to that of the average capital unit. If the DPK of a particular group of owners is 1,000 times greater than that of the average owner of capital, the former is 1,000 times more powerful than the latter.
2. The pace of *differential accumulation* is given by the rate of growth of the group's capitalization less the rate of growth of the average capitalization.
3. Only capitalists with a positive differential accumulation are said to "accumulate" (Nitzan and Bichler, 2002: 39).

Applying these definitions to Korea, Figure 2.3 provides an illustration of DPK and differential accumulation for the leading corporation in the Korean dominant-capital group, Samsung Electronics.⁹ The differential power of Samsung Electronics is calculated by dividing its capitalization by the capitalization of the average listed company (which is calculated by dividing total market capitalization by the number of all listed companies in KOSPI). According to the chart, in the early 1980s Samsung Electronics had nearly seven times the capitalization (or power) of the average listed company (52.1 billion KRW compared to 7.7 billion KRW). By the end of 2000s, this ratio has risen to about 90 (97.9 trillion KRW vs. 1.1 trillion KRW)—a 13-fold increase. With a logarithmic scale, the slope of the DPK series indicates the difference between the rate of accumulation of Samsung Electronics and the average rate of accumulation in the Korean corporate universe. Thus, the slope can be regarded as a proxy for the differential accumulation of Samsung Electronics.

⁹It has to be noted that Nitzan and Bichler's analyses of DPK and differential accumulation are designed for a group of capital, i.e. dominant capital, rather than for a corporation. Due to limitations in the availability of long-term time series for the market capitalization of Korean dominant capital, the DPK and differential accumulation of Samsung Electronics are shown in the illustration.

The slope of the trend line shows that differential accumulation by Samsung Electronics has averaged 12.5 percent annually.

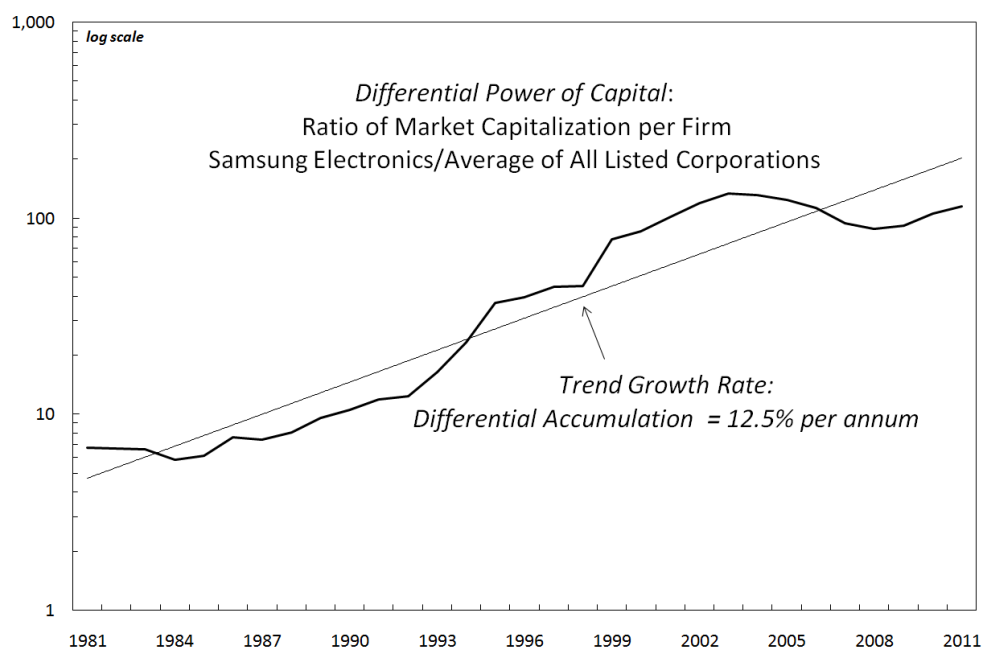


Figure 2.3 An Example of the Analysis of the Differential Power of Capital and Differential Accumulation

Note: Series is shown as a three-year moving average.

Sources: Bank of Korea for the average capitalization of a listed company; KIS-VALUE for the capitalization of Samsung Electronics.

Regimes of Capital Accumulation

With this analytical framework for the accumulation of capital, Nitzan and Bichler further specify four regimes of differential accumulation that are respectively characterized by green-field investment, mergers & acquisitions, stagflation, and cost cutting.

Table 2.1 Regimes of Differential Accumulation

	External	Internal
Breadth	Green-field	Mergers & Acquisitions
Depth	Stagflation	Cost cutting

The four regimes are derived from the abovementioned capitalization formula. It is worthwhile briefly explaining the logic underlying their formulation of these four regimes. Because the differential accumulation of a typical company in the dominant-capital group is the ratio between its own capitalization and the average capitalization ($DK=K_D/K$), it can be also expressed as “some combination of the following: (1) raising its differential earnings (E_D/E), (2) raising its differential hype (H_D/H), and (3) lowering its differential risk (δ_D/δ)” (Nitzan and Bichler, 2009: 327-8). Here, the D subscript denotes dominant capital; no subscript denotes the average capital. Thus, differential accumulation is expressed as the following equation.

$$DK = \frac{K_D}{K} = \frac{\left(\frac{E_D}{E}\right) \times \left(\frac{H_D}{H}\right)}{\left(\frac{\delta_D}{\delta}\right)}$$

“But of these components,” say Nitzan and Bichler, “one clearly stands out: differential earnings (E_D/E)” because “this is the main long-term driver of the [accumulation] process.” If our analyses of differential capitalization focus on differential earnings, we may distinguish two ways in which a firm can raise its earnings relative to that of other firms. Nitzan and Bichler note that “for dominant capital a positive rate of differential accumulation could hence be achieved by following two distinct routes: either through ‘breadth,’ by expanding employment faster than the average to increase market share, or via ‘depth’ by raising profit per employee faster than average” (2002: 14). Thus, differential capitalization can be expressed as follows (2009: 329):

$$DK = \frac{K_D}{K} = \frac{E_D}{E} = \left(\frac{\text{employees}_D}{\text{employees}}\right) \times \left(\frac{\text{earnings per employee}_D}{\text{earnings per employee}}\right)$$

A breadth regime can be further subdivided into two distinct forms: *external breadth* and *internal breadth*. The former denotes an increase in market share by a particular group of capital by building new capacity and hiring new employees faster than the average. Without creating new capacity, the group can enjoy the same effect by taking over other existing companies. This way of increasing corporate size is referred to as internal breadth. The depth regime also has two distinct routes to differential accumulation. The group can attain an increase of profit per employee by cheapening production (i.e. cutting costs) faster than the average, which is named *internal depth*. The group can have a similar outcome in stagflation if it manages to increase its relative profit gains per unit faster than its relative decline in volume. This method of accumulating differentially is called *external depth*.

This classification of differential accumulation is illuminated further in the following chapters through an empirical analysis of Korean capitalism.

The Mutual Transformation of the State and Capital

Nitzan and Bichler's approach to capital enables us to cast new light on the relationship between the state and capital. Because accumulation is understood as the financially expressed "distributional claim" of the ruling classes to the "community's overall productivity," which distributional claim is manifested through the "whole spectrum of social power," the state does not have to be understood as external to the accumulation of capital. In this way, the "vicious" circle of leftist theories of capital and of the state can be broken. Although most leftists conceive the state and capital as connected, they see this connection through the separation of politics and economics, and this separation obstructs theoretical efforts to produce a framework for analyzing the integral power role of the state in the accumulation of capital. In turn, the narrow scope of leftists' notion of accumulation makes it difficult to grasp how the nature of the state is transformed through its interaction with capital.

Going much further than simply connecting the two institutions, Nitzan and Bichler argue that if "the state" denotes the complex of political institutions and governing organizations that are intended to control social processes, "*capital itself can be seen as an emergent form of state*" (2002: 13, original emphasis). The development of the modern nation state coincides with the progressive *commodification* and *privatization* of power. In other words, while state institutions and organizations become facets of capital through their systematic impact on profit, "differential power institutions are increasingly crystallized as capital, and by virtue of their social centrality emerge as 'a state' in their own right" (ibid: 14).

Interestingly, according to Nitzan and Bichler (2009: 295), it was none other than Marx who initiated this idea of the mutual transformation of the state and capital through the commodification of power. Marx, thinking of the state as the "midwife" of capitalist society, also argued that

The system of public credit, *i.e.*, of national debts, whose origin we discover in Genoa and Venice as early as the middle ages, took possession of Europe generally during the manufacturing period. The colonial system with its

maritime trade and commercial wars served as a forcing-house for it. Thus it first took root in Holland. National debts, *i.e.*, the alienation of the state—whether despotic, constitutional or republican—marked with its stamp the capitalistic era. The only part of the so-called national wealth that actually enters into the collective possessions of modern peoples is their national debt. Hence, as a necessary consequence, the modern doctrine that a nation becomes the richer the more deeply it is in debt. Public credit becomes the *credo* of capital. And with the rise of national debt-making, want of faith in the national debt takes the place of the blasphemy against the Holy Ghost, which may not be forgiven. (1887: 529)

Marx, defining national debts as the alienation of the state, presented the mutual transformation of the state and capital as the characteristic feature of a newly emerging social order. As far as the genesis of capitalism is concerned, he seems to have given to this mutual transformation the same importance he gave to the creation of massive “free labour” through exclusion.

This point seems to be the biggest “missing link” in the tradition of leftist political economy. So far, many leftists’ debates on the nature of capitalism have focused on the capitalist mode of production without paying due attention to the change in the nature of the state. As Perry Anderson (1974) correctly pointed out, there was no place for the state in the highly communicated controversy over the transition from feudalism to capitalism, which was preoccupied with the prime mover behind the transition (see Hilton, 1976).

Even though the dialectical connection between the state and capital has been emphasized in numerous leftist debates on the relationship between the two, the mutual transformation of the two entities has not been dealt with adequately. In fact, the nature of the two institutions remains intact in these studies. Despite the variety of leftist approaches, ranging from instrumentalist to autonomist, most leftist theoreticians start with the separation between politics and economics in which the state and capital are respectively anchored (Jessop, 1982). Their concerns are confined to the extent to which the state in the political sphere is independent of (or dependent on) capital in the economic sphere. The participants in these debates, usually situated somewhere between the instrumentalist and the autonomist approaches, wrestle with the difficulty of keeping “the two sides of this dialectic

simultaneously in motion and not [... lapsing] into either a solely political or a predominantly economic mode of argumentation” (Harvey, 2003: 30).

This dialectical difficulty characterizes even those studies that pay attention to what Marx called the “alienation of the state.” For example, Giovanni Arrighi (1994) and Charles Tilly (1990) offer details of the historical processes through which the systematic interactions between states and capital gave birth to the contemporary global political economy. Despite some differences between their perspectives and objectives, both theoreticians emphasize the historical symbiosis between state and capital that enabled both territorial and capitalist power to evolve into their modern forms. In a nutshell, the ambition of the early modern European monarchies to concentrate and expand their power and territories, commonly referred to as “state-making,” inevitably led to “war-making,” which in turn made these monarchies dependent on capital. Consequently, this process fostered the growth of state administration, especially tax-levying and fiscal-accounting organizations, and strengthened capitalist power at the same time. However, although these historical studies help us understand in detail the *external expansion* of the state and capital, they fall short of delving into the *internal changes* in the nature of the two institutional entities. As studied within the iron framework of the politics-economics dichotomy, “state and business, although constantly changing through mutual interaction, are still seen as *fundamentally distinct*” (Nitzan and Bichler, 2009: 278, original emphasis).

In my view, bringing back Marx’s insight into the mutual transformation of capital and the state should enable a cogent theoretical framework for understanding the decisive role of the state in “the economy” and the centrality of capital in “politics.” These days, not only the national nexus of debts and taxation, but also every single aspect of the state bears on the accumulation of capital. The various powers of the state, including “military spending, subsidies, industrial policies, war making, tariffs, protection of private property, patents and copyrights, propaganda, labour laws, macroeconomic policies and policing, to name a few,” systematically influence the “differential level and temporal pattern of capitalist income” (Nitzan and Bichler, 2004a: 28). It can be safely said that, in significant part, the value of capital is a capitalization of the state. Over time, virtually all processes of social production and reproduction have increasingly come under the influence of the capitalist *nomos*, so the activities of the state that governs these processes have become inseparable from the accumulation of capital. Consequently, drawing a line

between so-called “legitimation” and “accumulation” is becoming meaningless, if not impossible.

In a sense, Harvey’s notion of two alternating regimes of accumulation does take the mutual transformation of the state and capital into consideration. His notion of “accumulation by dispossession” can embrace anything other than “expanded reproduction,” which is regarded as normal accumulation. According to him, accumulation by dispossession is “most importantly exercised through the credit system and financial power,” which work at the “dialectical intersection of territorial and capitalistic logics” (Harvey, 2006: 159). By extending the perimeter of the notion of accumulation, he tries to provide a solution to the problem that the state stands external to the accumulation of capital in quantitative analyses. Certainly, this attempt is a big stride from the traditional Marxist position, which sticks to the labour theory of value. Yet his attempt is still based on the premise that we can “define and empirically measure ‘accumulation’ in the context of ‘expanded reproduction’” and thereby “disentangle the effect of ‘accumulation by dispossession’ from that of ‘overaccumulation’” (Nitzan and Bichler, 2004a: 9). What we need to rethink is the very idea that there is such a thing as “normal accumulation” independent of socio-political processes.

The ontological separation between politics and economics may have had concrete historical roots, but nowadays it is just a bourgeois ideology that is intended to conceal the capitalist form of power. What Marxists call expanded reproduction is itself *political*. Private property itself is a legal expression of the social relations of power. Furthermore, wage, labour relations, the rate of profit, and the market value of property are shaped by nothing other than political struggles and consequent arrangements. For example, without intellectual-property rights, which are enforced by states and free-trade-related international organizations, the earnings and capitalization of global conglomerates such as Microsoft, Pfizer, and EMI would plummet dramatically.

Moreover, as Veblen pointed out, capitalists’ power in these struggles is based not so much on their ability to influence productivity positively as on their ability to “strategically limit or ‘sabotage’ the process of social reproduction” (Nitzan and Bichler, 2002: 38). Accumulation has to be understood as “political ransom,” that is, the capitalization of the power to inflict damage on society in general and to partly exclude the masses of the workers from the production process in particular. This power is well illustrated in the recent global political economic crisis. Capitalists, by

threatening to sabotage the process of social reproduction, force governments to socialize their debts. From this perspective, it would be redundant to distinguish expanded reproduction from accumulation by dispossession, even if such a distinction were possible.

Thus, it can be said that the characteristic feature of capitalism is not the separation of economic and extra-economic forms of power, but the generalization of the pattern of its prime social order in which all kinds of power over the social process, both coercive and hegemonic, are commodified, capitalized, and traded. The state and capital are the two key institutions of power that impose, promote, and defend this order. At the same time, they are themselves ruled by this order.

The ability of a government to manage not only fiscal and monetary policies but also social risk in general is incorporated into sovereign credit ratings and country risk rankings. In like manner, the management of business risks to which a government's policies, institutional arrangements and labour relations are central is differentially quantified into the accumulation of capital. The real-estate business and so-called financial and industrial capital are under the same law. This logic of capitalization has become increasingly universal, imposed on virtually all social processes. Even "the present value of a worker" is calculated on the basis of "her expected lifetime earnings and the risk of her being laid off," along with "the value of her mortgaged home, car and line of credit" (Nitzan and Bichler, 2004a: 19). Capital, imposing its social order on every corner of society, is emerging as a full-fledged "state" that controls social processes more comprehensively than does any other institution of power.

The Trans-nationalization of Capital

The new understanding of the relationship between the state and capital in turn suggests a new approach to the global constellation of power that has mostly been theorized within the framework of imperialism.

According to Nitzan and Bichler, the structural transformation of the global political economy since the end of the Second World War can be better conceptualized as "new capitalism" than "new imperialism" (2004a: 50-62). In other words, the change is characterized better as the trans-nationalization of the capitalist mode of power, i.e. the capitalization of social relations on a global scale, than as

another version of capitalist imperialism. This characterization implies neither that the state has been weakened nor that inter-state tensions and conflicts will disappear, contra Hardt and Negri (2000; 2004). Rather, this characterization implies that, as the capitalist *nomos* gains universality through the rapid increase of *global ownership* over the last half-century, (1) it is increasingly difficult to locate national capitalist ruling classes and their power within the formally existing inter-(nation) state system; (2) the way in which geopolitics plays a role in accumulating capital is subsumed into the general pattern of social order, viz. *differential capitalization*.

Not only Nitzan and Bichler but also many leftists, recognizing the transformation of imperialism after the Second World War, have tried to theorize the “newness” of global power relations. First and foremost, there is no question that formal colonial rule has faded away since the end of the Second World War. Yet most theorists continue to see the paradigm of imperialism as a valid way to understand the contemporary global political economy. From Baran and Sweezy, through Amin and Wallerstein, to Wood and Harvey, to name a few, the successors of early twentieth-century radical thinkers such as Hobson, Hilferding, Lenin, Bukharin, and Luxemburg have attempted to explain how the World Powers sustain their imperial practices without colonies through exploitation and accumulation immanent in world-wide proletarianization and the free flow of commodities and finance.

Despite some differences in the details, theories of post-Second World War imperialism commonly tend to argue that (1) the new global system of capitalist exploitation is also based on a *clear geographic distinction* between the core and the periphery or *unequal inter-state relations* led by US hegemony, (2) the exploitation of the periphery by the core is a way to solve the crisis of capital over-accumulation, and (3) the territorial logic of power embracing the various types of geopolitical tension both between the core and periphery and between superpowers still plays an important role in maintaining the system. In a nutshell, the nature of the new imperialism can be characterized as the spatial expansion of the categorical imperative of capital, i.e. as the ever-growing *geographic* cycle of $M \rightarrow C \rightarrow P \rightarrow C' \rightarrow M'$, supported by the overwhelming military power of Western superpowers, especially the US.

Although the accumulation of capital is correctly placed at the centre of such research on the world system of power, it is doubtful whether the three above mentioned characteristics are suitable for an understanding of the contemporary world order. Moreover, it is not clear why the system has to be categorized as a type

of imperialism. Even some advocates of the validity of imperialism admit this problem.

For example, Ellen Wood (2006: 17), who characterizes contemporary capitalist imperialism as the “purely economic mode of exploitation beyond national borders” without relying on “direct political and territorial domination,” ponders this question for a fleeting moment. Yet she decides to keep using the term “imperialism” for an odd reason: “It might be argued that this is not ‘imperialism’ in any meaningful sense... but... if we are reluctant to use the term imperialism to describe the specifically economic domination engendered by capitalism, we may have trouble describing relations between capital and labour as *class* relations, since they differ from pre-capitalist forms of class exploitation” (original emphasis). She seems comfortable with giving up the rigorous conceptualization of imperialism.

Whether or not the current global system of power should be called “imperialism” is not merely a matter of terminology, but of identifying the worldview of the ruling classes, the mode of their power, and that power’s laws of motion on a global scale. Therefore, imperialism as a framework for the explication of global power should be conceptualized strictly and used rigorously. However, in my view, theoretical rigour has been overwhelmed by political enthusiasm: imperialism, like fascism, having lost its specific meaning, is used to denote the abuse or misuse of power by the core.

A military invasion of the periphery by the core may be a necessary but not sufficient condition for imperialism. Nor is economic inequality between core and periphery enough to define their relationship as imperialism. Most theories of imperialism, although starting with a presupposition that the logic of state power exists independently of the logic of capital, end up actually explaining that the one is subsumed by the other. For example, as Brenner (2006: 86) correctly points out, a *spatial theory of capital* rather than *new imperialism* would have been a better title for Harvey’s theory because “in his own interpretation, despite his general theoretical strictures, the great wave of European territorial expansion and its geopolitical consequences is understood, virtually in its entirety, in terms of the imperatives of capital accumulation.”

Thus, it can be said that the actual issue in the leftist theory of imperialism boils down to the relationship between the state and capital in general, particularly between geopolitics and the accumulation of capital. As discussed earlier, leftist political economy falls short of building an analytical bridge between the social

process of power and the accumulation of capital. By the same token, the influence of foreign policies and geopolitics on capital accumulation is also only circumstantial in their theories. In order for theories of capitalist imperialism to be tenable, they must at least explain how geopolitical tension helps the exploitation of the periphery and thereby accelerates the accumulation of capital at the core. In addition, they must be able to clearly identify the nationality of capital.

Yet it has been increasingly difficult to perform these tasks because “the material conditions have changed so radically that what were once plausible and appropriate theories have become outdated” (Harvey, 2007: 57). First, by being locked in the labour theory of value (or worse still, by abandoning the labour theory of value without developing another theory of value to replace it), the theorists of new imperialism cannot show how geopolitical processes are actually quantified into, or even quantitatively related to, the accumulation of capital. Second, remaining within the nation-state-centric paradigm, they show a strong reluctance to “draw out the analytical, theoretical, methodological, and epistemological implications of capitalist globalisation,” and they incessantly reify the state (Robinson, 2007: 71). As a result, they theoretically neglect the fact that the ownership of capital has been increasingly, if not overwhelmingly, trans-nationalized.

According to the McKinsey Global Institute, as of 2006 27 percent of world equities were owned by foreigners, compared with 9 percent in 1990. Also, the share of foreign owners of government bonds rose from 11 percent to 31 percent, while the foreign ownership of corporate bonds rose from 7 percent to 21 percent during the same period. In total, about 26 percent of all world assets are owned by foreigners (Nitzan and Bichler, 2009: 12-3; originally from Farrell et al., 2008: 73). As foreign investment tends to be concentrated within leading global corporations, the extent of the trans-nationalization of corporate ownership has to be far more significant than these figures suggest.

The globalization of ownership, which is central to the social changes that have occurred during the last half-century, has facilitated the universalization of the capitalist order on a global scale; it has turned hitherto nationally divided capitalist classes into a globally integrated class. The price system and capitalization, i.e. the unit and mode of the capitalist social order, come to be so “natural” that everything can be evaluated and compared in the same terms across time and space. Consequently, qualitative differences among the political economies in the contemporary world have increasingly been normalized and reduced to quantitative

differences. These changes enable the capitalist ruling class across the world to discount the different policies of individual states and international or regional institutions of power into the universal prices of their assets. Thus, every day we witness the so-called coupling of equity markets across the world. Through globalization, “state organs and institutions from different countries” are incorporated as “components of a worldwide mega-machine, called transnational accumulation” (Nitzan and Bichler, 2002: 297).

No Reductionism

A final point to note in this chapter is the boundary of Nitzan and Bichler’s theory of capital. They themselves set the limits of their theory as follows:

The study of capitalization does not, and cannot, provide a *general theory of society*. Capitalization is the language of dominant capital. It embodies the beliefs, desires and fears of the ruling capitalist class. It tells us how this group views the world, how it imposes its will on society, how it tries to mechanize human beings. It is the architecture of capitalist power (2009: 19-20, original emphasis).

In contrast to the language of the ruling class, Nitzan and Bichler argue, we can hardly know, much less theorize, the language of the underlying population. Its autonomous consciousness, thought, intention, and reaction to the social order imposed by the ruling class have no pre-set pattern. Thus, Nitzan and Bichler confine their theoretic concerns to the study of the capitalist order.

This limit does not mean that the understanding of all social phenomena can be reduced to this single logic. The ruling class is not omnipotent, even though it imposes the dominant order on society; nor is it the only motor force for social changes. Yet the order imposed by the ruling class is perhaps the only process of social power that has a certain pattern and thereby can be systematically theorized and predicted to some degree. Unlike the ruling class, subaltern classes can hardly have a “unitary logic” of their own. Therefore, as far as the *theorization* of social power is concerned, we have little choice but to focus our analyses on the mindset of the ruling class—on the pattern of order underpinned by the processes and institutions

of power and ideology, and the way in which capitalists measure their power. As demonstrated more fully later in this thesis, Nitzan and Bichler argue that this power is symbolically represented through differential capitalization.

It also has to be noted that Nitzan and Bichler's general theory of capital needs to be adjusted to suit the historical specificity of individual capitalisms. Nitzan and Bichler themselves dismiss *a priori* laws of motion in human history, putting great emphasis on the mindset of the ruling class; therefore, their theoretical framework for analyzing the capitalist order should not be applied indiscriminately to individual capitalist societies. Some historical specificities of individual capitalisms might not fall within the scope of their framework. Even though my research intends to highlight the general pattern of the evolution of Korea as a capitalist society, it also tries to illuminate the particular characteristics of Korean capitalism and to address the distinct features of power institutions and arrangements that Korea's ruling class has created. However, an emphasis on particularity should not lead to blunt relativism. Although the concrete pattern of order varies according to the mindset of the ruling class in each country, the ruling class cannot arbitrarily impose *any* order on a society. The mindset of the ruling class operates within the limits of the possible defined by international as well as domestic inter- and intra-class struggles.

Let us now turn to concrete applications of the analytical framework described in this chapter. In the following three chapters, I try to cast new light on the half-century-long development of Korean capitalism from the perspective of capital as power. Major social issues in Korea's contemporary history, such as the rapid industrialization under the authoritarian government, the fall of the military regime, the 1997 financial crisis, and the post-crisis social restructuring, are to be understood as part and parcel of the evolution of the capitalist mode of power. As noted in the previous chapter, two opposing schools of economics, i.e. neo-classicist and statist, have led the debates on these topics. By ignoring the formation of social classes and the structure of power underlying economic development, these schools serve to strengthen existing power relations. My analysis of the development of Korean capitalism in the next three chapters, in contrast, is centred on the emergence of the capitalist ruling class and the consolidation of its power structure. Furthermore, the three following chapters show how these qualitative processes of social power have been quantified into the accumulation of capital. Let's get down to the details.

The Establishment of the Capitalist Social Order: The Era of State Capitalism

This chapter offers a historical and empirical analysis of the evolution of Korean capitalism, especially in the pre-1997 crisis period, which was marked by state capitalism. While prevailing approaches to the topic have focused on the rapid industrialization and high GDP growth rates achieved by Koreans over the last half-century, this chapter attempts to shift our attention from *development* to *power*. From a perspective of political economy that sees capital itself as power and the accumulation of capital as the centre of analysis, it delves into the emergence and rapid expansion of Korea's capitalist power. In doing so, the chapter interweaves the accumulation of Korean dominant capital (i.e. the *chaebols*) with key historical events such as the Korean War, military dictatorship, rapid industrialization, and Cold War tensions in the Korean Peninsula.

This chapter is organized around two major arguments. First, Korea's dramatic economic growth was part and parcel of the Korean ruling class's attempt to establish a capitalist mode of power. By analyzing the process of Korea's rapid industrial development, which relied on *proletarianization*, in terms of Nitzan and Bichler's differential accumulation, this chapter shows how communal development efforts were commodified and centralized in the hands of a cohesive group of leading capitalists. Second, Korea's *chaebol* system is the culmination of the *strategic sabotage* of industry, the deliberate *limitation* on society's productive capacity. It may sound strange to characterize Korean dominant capital, which has been oriented towards rapid *green-field growth* as engaged in strategic sabotage. But a close examination of its development reveals that its nature is to engage in nothing but

sabotage, as is the case with the *depth regime* of capital accumulation. The chapter shows that the concentration and centralization of capital in Korea resulted not from the “creative entrepreneurship” of the Korean *chaebols*, but from their ability to prevent others from having access to profit flows.

Industry and Business

As development economics argues, Korea has achieved high economic growth through rapid industrialization over the past half-century. Yet, in my view, development economics fails to see that this economic development has been inextricably entwined with the formation of the capitalist mode of power. On the one hand, by depoliticizing the realm of economics, neo-classical economists treat the integral power role of the state in economic growth, the massive mobilization of the Korean people for industrialization, the various means of violence, and the systematic exploitation of Korean workers as if they were irrelevant to the development of Korean capitalism. On the other hand, statist developmentalism conceives the state not as an institution for power but an institution for productivity. By ignoring the process of capital accumulation and the concentration and centralization of wealth, statisticians divert attention from the formation of the capitalist ruling class and the establishment of the class structure in Korea.

In order to overcome these shortfalls of development economics, the chapter adopts a different approach to the development of Korean capitalism. Basically, it sees the nature of Korea’s rapid economic growth over the past half-century as the subordination of *industry* to *business* in the Veblenian sense. While the former is derived from the creativity of the community as a whole, the latter is an exclusive claim on (or the privatization of) industry, and therefore a matter of power. I think that Korea’s recent history exemplifies how industry is subordinated to business: indeed, industrial development hinges on the entire social effort to realize the potential of a community, especially its collective knowledge; yet, in parallel to these changes, the fruits of communal efforts became privatized and concentrated in the hands of a few.

In my view, Korea’s dramatic “economic” growth has been a means to an end, namely the expansion of the ruling class’s power. The process of industrial development through rapid proletarianization, which was achieved by transforming

the huge agricultural “surplus labour” into urban industrial workers, was never intended to achieve “welfare” for Koreans or the “renaissance” of their country; rather it was a particular *regime* of *accumulation* that the ruling class came to believe was the best way of increasing its power internationally and domestically. The regime can be categorized as what Nitzan and Bichler call “external breadth.” Developmentalists tend to misread this regime of accumulation as if it were the same as industry in Veblen’s terminology.

Korea’s High Economic Growth

It has to be acknowledged that the popularity of developmentalism in Korea has a strong “material” foundation. As Figure 3.1 shows, in terms of real GDP growth (constant 2000 \$US), Korea has performed far better than the rest of the world over the last half-century, although it experienced several crises on its way to becoming the world’s fifteenth largest economy (by GDP as of 2008). The chart represents three indexes that rebase the shares of world GDP for three different groups—Korea, Latin America and the Caribbean, and the high-income OECD countries—to 1965=100. The numbers, in 2008, are 457, 108 and 92, respectively.

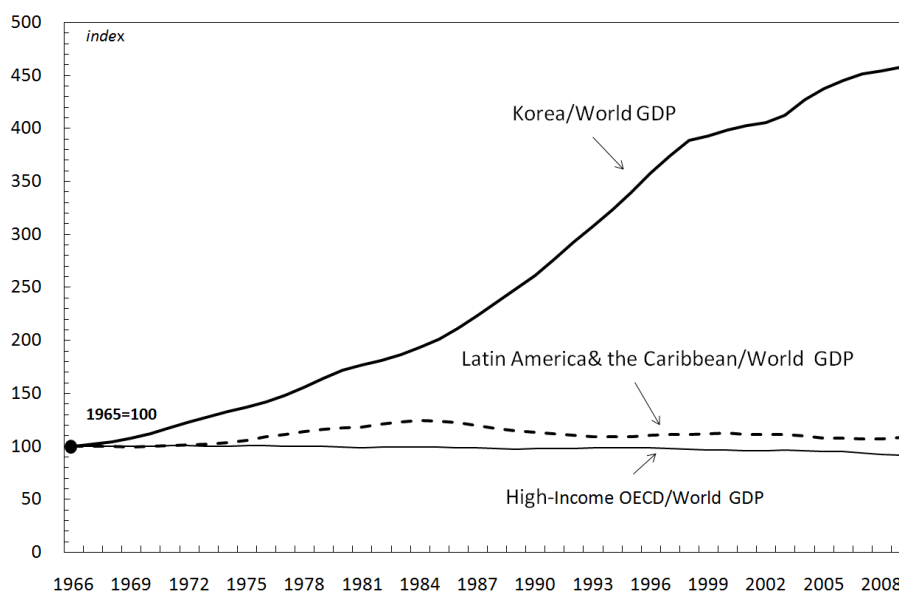


Figure 3.1 Korea’s Relative GDP Growth (rebased 1965=100)

Note: Series are smoothed as five-year moving averages. The original data are in real terms (constant 2000 \$US).

Source: World Development Indicators

Rebasing their percentage shares to equal 100 for each group in 1965 enables us to compare their relative growth at a glance. The chart shows that Korea’s performance is in striking contrast with that of Latin America and the Caribbean, which development theoreticians are keen to compare with Korea. Korea’s contribution to world GDP in 2008 was about 4.6 times larger than in 1965; its actual share has grown from 0.4 percent in 1965 to 1.84 percent in 2008. Over the same period, Latin America and the Caribbean has not increased relative to the world as a whole. Its index number for 2008 is 108. That is, its share of the world GDP in 2008 is only 8 percent higher than in 1965. In the case of the high-income OECD countries, the index number for 2008 is 91.6, an 8.4 percent decrease compared to its share of world GDP in 1965.

The differential “economic” performance of Korea can also be confirmed with actual growth rates. Table 3.1 compares the cumulative growth rates for Korea, the world, and Latin America and the Caribbean for the period 1961-2008. In the 1960s, Korea achieved 110 percent cumulative growth, while that of the world average was 60 percent and that of Latin America and the Caribbean was 63 percent. Despite the so-called “oil shocks,” during the 1970s Korea’s GDP increased by 86 percent, more than double the world average. The rapid growth of Korea in the 1980s was of particular importance in the development race with Latin America and the Caribbean. While the latter region fell into the long-lasting recession of the “lost decade,” Korea’s GDP increased by 118 percent. Even in the 1990s, during which Korea came close to a national default on foreign debt, the country achieved growth rates twice as high as those of the world and of Latin America and the Caribbean.

Table 3.1 The Comparison of Cumulative Growth Rates (by decade, percent)

Periods	Korea	The World Average	Latin America & the Caribbean
1961-1970	110	60	63
1971-1980	86	35	64
1981-1990	118	34	11
1991-2000	65	27	32

Source: World Development Indicators (Constant 2000 \$US)

Given the fact that one of the world's poorest countries in the 1950s had become the fifteenth-largest economy in 1990, it is very "natural" that Korea's political economy is regarded as a paragon of development by Third World countries. It is also understandable that mainstream economists have endeavoured to take advantage of Korea's success story. By adducing Korea's "miracle" for their economic models for developing countries, they may increase their political and theoretical influence on the social process.

The Shift from Development to Power

Although the preoccupation with Korea's success is understandable, in my view, the approaches taken by developmentalists to understand this success are highly problematic. Above all, these approaches do little more than scratch the surface of Korea's capitalist transformation of the past half-century. Both neo-classicists and statisticians pay attention to the ostensible development in terms of GDP growth while neglecting the *molecular transformation* of the underlying structure of power in Korean society. In doing so, they treat the state and capital as if they were institutions for development, not power. As a result, their approaches tend to ignore the process of capital accumulation, the distribution of income, the control of economic power, ideologies, and sheer violence that were integral to Korea's "economic miracle." In other words, developmentalists hardly mention the establishment of the capitalist form of power in Korea, which I believe is central to its social changes over the past half-century.

"Given that industry is carried for the sake of business," as Nitzan and Bichler (2009: 221) hold, "it follows that the primary line of causality runs not from production to distribution, but from distribution to production." As illustrated in Figure 3.2, the evolution of the Korean *chaebols*, which are highly concentrated and centralized, corroborates this argument. The chart consists of two different series: the ratio between the net profit of the Samsung Group and Korea's nominal GDP, and Samsung's total assets. The ratio of Samsung's net profit to GDP, which is rebased to 1960=100, has increased more than 500-fold during the last half-century: the index for 2010 is 54,352. That is, Samsung's share of the pie in the distribution of newly produced wealth has become 500 times bigger during the period. Consequently, the book value of Samsung's total assets at constant prices has risen from 148 billion KRW in 1960 to 284 trillion KRW in 2010—a 1,918-fold increase!

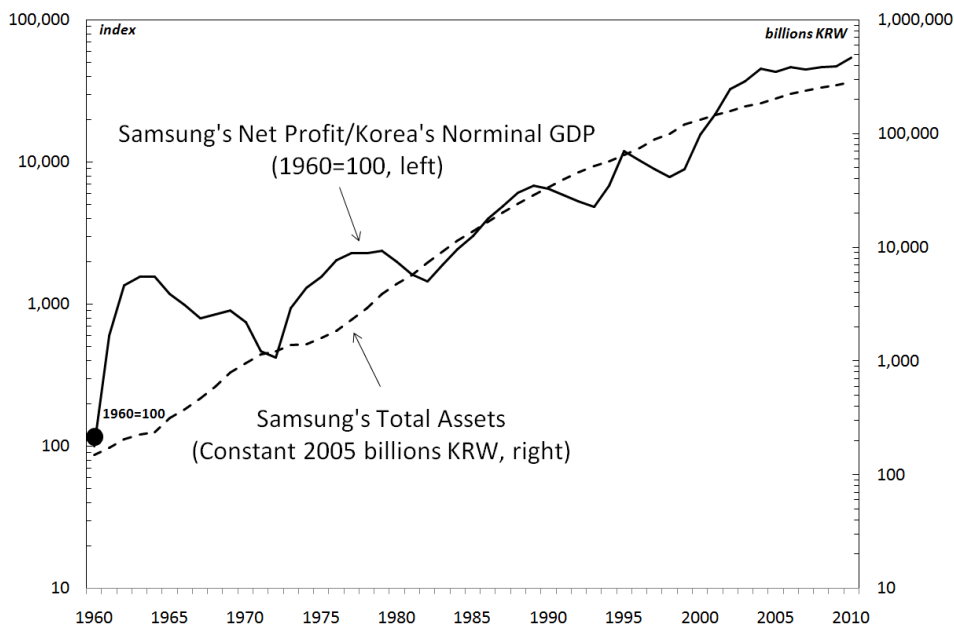


Figure 3.2 The Concentration of Social Wealth

Note: Series are smoothed as five-year moving averages. The ratio between the net profit of the Samsung Group and Korea's nominal GDP is rebased to 1960=100.

Sources: Bank of Korea for GDP; Samsung, 1998 for Samsung's net profits and assets, 1960-1997; Samsung Online (<http://www.samsung.co.kr>) for 1998-2010.

Thus, in my view, the starting point for research on the development of Korean capitalism should shift from economic growth to the establishment of the capitalist social order along with the evolution of the capitalist ruling class, i.e. from *industry* to *business*. To be able to understand this evolution, it is convenient to start from the end. Let's turn, then, to the *status quo* of the *chaebols*.

Centralization and Trans-nationalization

Two characteristic features of Korea's contemporary political economy are (1) high corporate concentration and centralization; and (2) increasing trans-nationalization in the sense that a substantial part of the ownership of the major corporations is now possessed by foreigners. In spite of the difficulty of drawing a clear boundary, we can provisionally define the thirty largest *chaebols* as the dominant capital in Korea. Within this group, there exist three hierarchical tiers. The first tier consists of four

distinguished conglomerates: Samsung, Hyundai Motor, LG, and SK. They are significantly larger than the other firms in this group in terms of the book value of their assets, their sales revenue, their net profit, and their market capitalization. The middle tier consists of six conglomerates, ranked fifth to tenth. These include Posco, Lotte, Hyundai Heavy Industries, GS, and Kumho Asiana. Although relatively smaller than the top four, these business groups rarely allow other *chaebols* to overtake them. The remaining twenty conglomerates comprise the third tier.

In addition, there are seven major commercial banks and several government-controlled corporations that need to be considered in conjunction with the thirty largest *chaebols*. The seven banks oligopolize the Korean banking sector. One of them remains in the hands of the government; none of the other (private) banks are under the *chaebols*' control. This situation owes much to the period during which the entire banking sector belonged to the government: in 1962, the military dictator Jung-hee Park nationalized all commercial banks. Even in the waves of *liberalization* and *privatization* during the 1990s, strong antipathy towards *chaebol* owners among Koreans frustrated the former's attempt to acquire commercial banks. As a consequence, after the 1997 crisis, it was not the *chaebols*, but foreign investors who effectively seized control of the major banks. As of 2011, average foreign ownership of the 7 commercial banks accounts for 60 percent.

The Centralization of Capital

In Figure 3.3, the centrality of the thirty largest groups and the seven major commercial banks in the Korean corporate universe is illustrated by their distributive share of profit, which demonstrates the proportion of Korea's aggregate (net) profit that is accounted for by these top business groups. As of 2007, the amount of total corporate profits pertaining to about 372,000 or so limited companies in Korea was 104 trillion KRW. The thirty largest groups and the seven major banks accounted for 60 percent of this. More specifically, the profits earned by the top four were 26 trillion KRW (or 27 percent of the total); the next six accounted for 14 percent of the total; the other twenty took up 9 percent. The profits of the seven major banks were similar to those of the third tier.

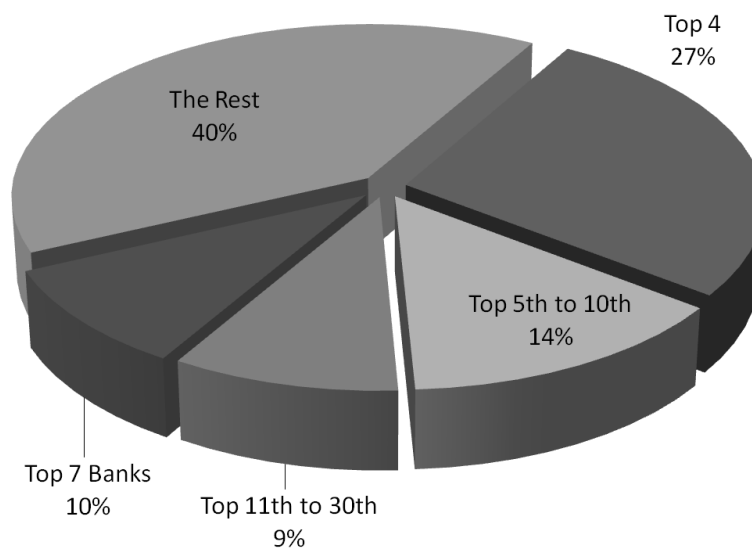


Figure 3.3 The Distribution of Net Profits

Note: As of 2007, there were 372,214 corporations that were officially registered at the National Tax Service as limited-liability companies.

Sources: National Tax Service for total corporate profits; Fair Trade Commission for the profits of the top 30 *chaebols*.

The gigantic Korean conglomerates are known as *chaebols*, a term that originates from *jaibatsu*, the Japanese pronunciation of the same Chinese characters, which refer to wealthy families. Yet changes in the ownership structure in the wake of the 1997 crisis have dramatically reduced the relative shares of the major families in these corporate groups. The *chaebols* have lost their original meaning, as they have gone public and the major families no longer own the majority of their stocks. Nevertheless, the *chaebol* families, despite their smaller portion of shares, still effectively control the conglomerates, mainly through complex circular cross-ownership ties among a number of subsidiary companies. Only in the sense that the *chaebol* families keep their managerial power over their corporations do the *chaebols* still exist. For example, the descendants of the founder of the Samsung Group owned only 1.36 percent of the latter's stock as of April 2009. However, by controlling 45 percent of the cross-ownership among the subsidiaries, the family retains its control over the management of the Samsung Group.

Table 3.2. Top Four *Chaebol* Families (2009)

Chaebols (controlling family)	Conglomerate Groups	No. of Firms (No of Listed)	Book Value (bn. KRW)	Share of Business World (%)	Market Value (bn. KRW)	Market Share (%)
Lee, B.C.	Samsung	63 (18)	343,812	12	190,711	21.4
	CJ	61 (8)	13,022		6,419	
	Shinsegae	14 (5)	12,438		10,934	
Jung, C.Y.	Hyundai Motor	41 (9)	122,718	7.1	63,873	10.6
	Hyundai Heavy Industries	15 (2)	41,187		14,884	
	Hyundai	11 (3)	20,835		6,867	
	Hyundai Engineering & Construction	14 (1)	9,811		7,653	
	Hyundai Department Store	22 (4)	6,857		3,231	
	Hyundai Development	16 (2)	6,693		3,028	
	KCC	10 (2)	8,701		4,086	
Koo, I.H.	LG	52 (13)	78,918	4.5	71,407	9.1
	GS	64 (6)	43,081		9,331	
	LS	32 (7)	16,180		7,862	
Choi, J.G. Choi, J.H.	SK	77 (16)	89,043	2.9	37,431	3.8
Korean Government	Korea Electric Power Corp.	12 (2)	123,517	11.9	22,360	2.7
	Korea Land and Housing Corp.	5 (1)	130,338		239	
	Korea Expressway Corp.	4 (0)	45,355			
	Korea Gas Corp.	3 (1)	23,094		3,748	
	Korea Railroad Corp.	12 (0)	21,386			
	Incheon International Airport Corp.	2 (0)	8,188			
	Seoul Metropolitan Transit Corp.	2 (0)	7,357			
	Incheon Urban Development Corp.	3 (0)	6,798			
Sum		533 (100)	1,179,329	38.4	464,064	47.6

Note: Market capitalization as of December 2009 included the market value of both the common and preferred stocks of the listed companies. The overall capitalization of the Korean stock market was 974,038 billion KRW. The “business world” refers to the 406,042 companies that were officially registered at the National Tax Service as limited-liability companies. The book value of their total assets amounted to 3,073,497 billion KRW.

Sources: Korea Exchange (<http://www.krx.co.kr>) for market capitalization; Fair Trade Commission (<http://www.groupopni.ftc.go.kr>) for the rest of the data.

If the thirty top conglomerates are reclassified according to their founding fathers, the centralization of Korea's business world is further increased. When bequeathed to their offspring, their properties were usually divided into several independent business groups but were still run by their sons and daughters. Table 3.2 lists the family groups of the top four *chaebols* and the major government-owned firms that are in the process of being privatized.

The Samsung Group, the largest conglomerate in Korea, has four sister groups, CJ, Shinsegae, Saehan, and Hansol Paper. The latter two are not included in the table because they are not ranked within the top 30. When Byung-Chul Lee, the founder of the group, died in 1987, the CJ food group was given to his first son; the Shinsegae Group (a department-store chain) to his third daughter; the Hansol Paper group to his first daughter; the Saehan media group to his second son (H.G. Lee, 1999: 542). His third son, Gun-hee Lee, inherited the major part of the group involving Samsung Electronics. The Samsung Group is currently ranked at the top, the CJ Group at nineteenth, and the Shinsegae group at twenty-first in terms of the book value of their total assets.

The sum of their respective assets amounted to 369 trillion KRW as of April 2009. The Samsung Group alone directly controls 63 firms that are otherwise legally independent public limited-liability companies. Of these 63 firms, 18 are listed on the Korea Exchange (the exchange consists of the KOSPI and the KOSDAQ¹ stock markets, which list 766 and 1022 companies, respectively).

As of December 2009, the aggregate market value of Samsung's listed firms was roughly 190 trillion KRW, accounting for 20 percent of the overall capitalization of the Korean stock market. The value of Samsung Electronics, amounting to more than 130 trillion KRW, accounts for 70 percent of the group's market capitalization. The Samsung Group's operation is so diversified that their companies engage in virtually all business sectors, from manufacturing to infrastructure, military production, wholesale, retail, telecommunication, and FIRE.

The second-largest *chaebol* is the Hyundai family, founded by Joo-Young Jung. After Jung's death, the Hyundai Group was divided into 7 independent business groups: Hyundai Motor, Hyundai Heavy Industries, Hyundai, Hyundai Engineering & Construction, Hyundai Department Store, Hyundai Development, and KCC. As with the Samsung Group, the Hyundai families are involved in a variety of business

¹The KOSDAQ stock market is the Korean equivalent of the NASDAQ stock market of the US. "KOSPI" stands for "Korea (Composite) Stock Price Index."

sectors. All in all, they have 139 companies, 23 of which are listed on the stock markets. The market capitalization of these 23 companies is about 104 trillion KRW, or 11 percent of the market's total capitalization. The market value of Hyundai Motor, run by the first son of the founding father, accounts for 60 percent of that of the families' listed companies.

The third *chaebol* family group consists of LG, GS, and LS—originally part of Lucky-Goldstar, founded by In-Hoe Koo. These groups are as diversified as the Samsung and Hyundai families, although the LG Group is usually known for its electric and electronic manufacturing; the GS Group for infrastructure and energy; and the LS Group for electric cable and ore. The market capitalization of the listed companies of the three siblings is about 89 trillion KRW (9.1 percent of the Korean market).

The fourth-largest *chaebol* family is SK, which, unlike the top three, has not yet been divided. The SK Group, which was co-founded by the Jong-Gun and Jong-Hyun Choi brothers, is currently managed by the son of the latter. The group consists of 77 companies, of which 16 are listed on the Korean stock market. Their market capitalization accounts for 3.8 percent of the aggregate market value. Telecommunication, energy, and chemicals are the group's primary sectors. As of 2008, according to the Fair Trade Commission, SK Telecom, the leading company of the group, occupied 51 percent of the wireless communication market in Korea, while SK Energy held 30 percent of the wholesale and retail petroleum market.

As noted, the giant private-sector conglomerates operate side by side with the highly concentrated public-sector companies. Some of the latter have already been privatized in the wake of the 1997 crisis, while others are on the top of the “waiting list.” Posco, the fifth-largest business group, which is also one of the world's largest steel companies, was privatized in 2000. KT and KT&G, which respectively monopolized the wired communication and tobacco sectors until recently, were privatized in 2002. The current government is making efforts to privatize the above-listed government-controlled companies, especially Korea Electric Power Corp., which monopolizes electricity generation and supplies. The market capitalization of Posco, KT, and KT&G amounts to 62 trillion KRW (6.4 percent of the entire market). Most Korean capitalists believe that if Korea Electric Power Corp. is fully privatized, its market value will be much higher than its current market capitalization (22 trillion KRW). This is the reason why Korean conglomerates keep pushing the government to hasten the process of privatization; in turn, the government propagates the plan for

privatization so as to justify the redistribution of public wealth to dominant capital under the banner of “industrial rationalization.”

In total, 100 of the 533 companies belonging to the top-four *chaebol* family groups and the eight government-controlled groups are listed on the Korean stock market. These companies represent only 5.6 percent of the 1,788 listed companies in Korea, but their market capitalization accounts for 48 percent of the total, even without taking into consideration the value of the abovementioned major banks,² Posco, KT, and KT&G.

The Trans-nationalization of Capital

The second characteristic feature of the Korean power structure is its increasing trans-nationalization, a process that has recently become one of the country’s most controversial social issues. Until the early 1990s, foreign ownership of the Korean stock market was negligible: in 1991, the market capitalization of foreign-owned shares was only 2.4 trillion KRW, or 3.3 percent of the market.

When the Kim Young-Sam government declared its policy orientation towards globalization, the situation changed suddenly. On the eve of the 1997 crisis, as we can see from Figure 3.4, the value of foreign-owned corporate stocks had risen to 14.6 percent of the market—four times greater than in 1991. The pace of the increase of foreign ownership accelerated further in the aftermath of the 1997 crisis. At its 2004 peak, the foreign share of the stock market accounted for 42 percent. Within a dozen years, one of the most “notorious” models of state capitalism had turned into one of the most globalized countries in the world.

Since 2004, foreign ownership has fallen gradually as foreign investors realized some of the attained capital gains. Recently, the global crisis ignited by the US sub-prime mortgage default has accelerated their sales further. Foreign ownership of Korean corporate stocks had decreased to 28 percent of the market by early 2009. Yet foreign investors have scrambled to increase their holdings of Korean stocks as global financial markets have reverted to a seemingly more “normal” state. As of September 2009, foreign ownership accounted for 32 percent of the total market value. Presently, almost all major “Korean” firms are partly but substantially controlled by foreigners. For example, as of December 2009, the foreign ownership of Samsung Electronics

²Five of the seven major banks are currently listed on the stock market. Their market capitalization is about 75 trillion KRW as of January 2010 (7.7 percent of the market).

(2009 sales of 130 trillion KRW, net income of 10 trillion KRW, and market capitalization of 133 trillion KRW) accounted for 50 percent. Samsung Electronics, the “pride” of the Korean people, can hardly be called a Korean company any longer.

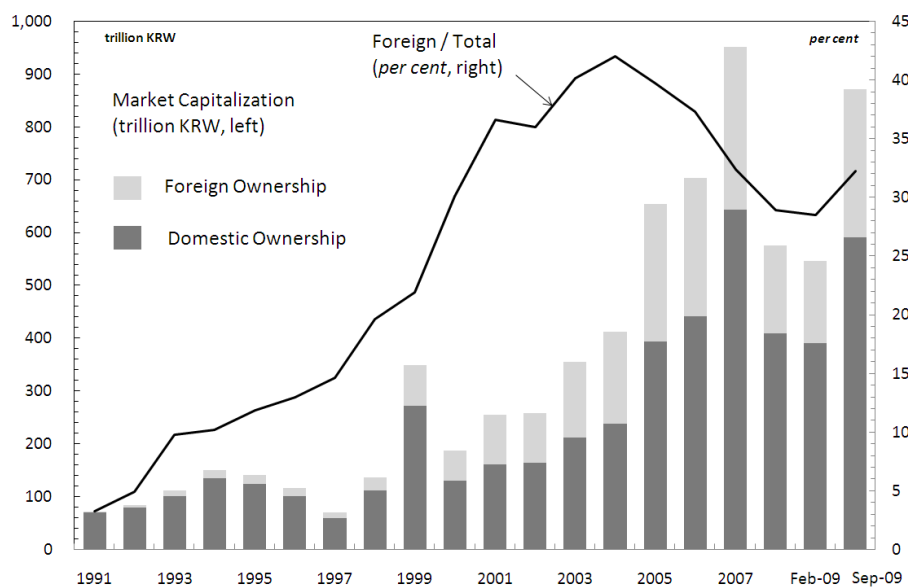


Figure 3.4 The Trans-nationalization of Korea's Corporate Universe: Domestic and Foreign Market Capitalization

Sources: Financial Supervisory Service (<http://www.fss.or.kr>) for foreign ownership; Korea Exchange (<http://www.krx.co.kr>) for the total market value.

Similarly, 50 percent of Posco's stocks, the world's fourth-largest steel company (2008 sales of 45 trillion KRW, net income of 4.8 trillion KRW, and market capitalization of 53 trillion KRW), are owned by foreign investors. In the case of banking, foreign ownership of the six major commercial banks (except for the government-controlled bank) accounts for 60 percent. Half the shares of KT (2008 sales of 11 trillion KRW, net income of 1 trillion KRW, and market capitalization of 14.7 trillion KRW) and SK Telecom (2008 sales of 9 trillion KRW, net income of 1 trillion KRW, and market capitalization of 14.7 trillion), are in the hands of foreign investors. About 30 percent of the main companies in so-called strategic sectors, such as automobiles and shipbuilding, are possessed by foreigners.

While the post-1997 process of trans-nationalization was initially seen as seriously undermining the interests of Korea's dominant capital, with time the Korean tycoons learned to welcome it. Indeed, nowadays they are trying to spearhead a campaign for bilateral free-trade agreements on a global scale. Starting with Chile,

the Korean government has also reached free-trade agreements with the US and the EU. Talks over agreements with other countries such as Canada, China, Japan, and India are under way.

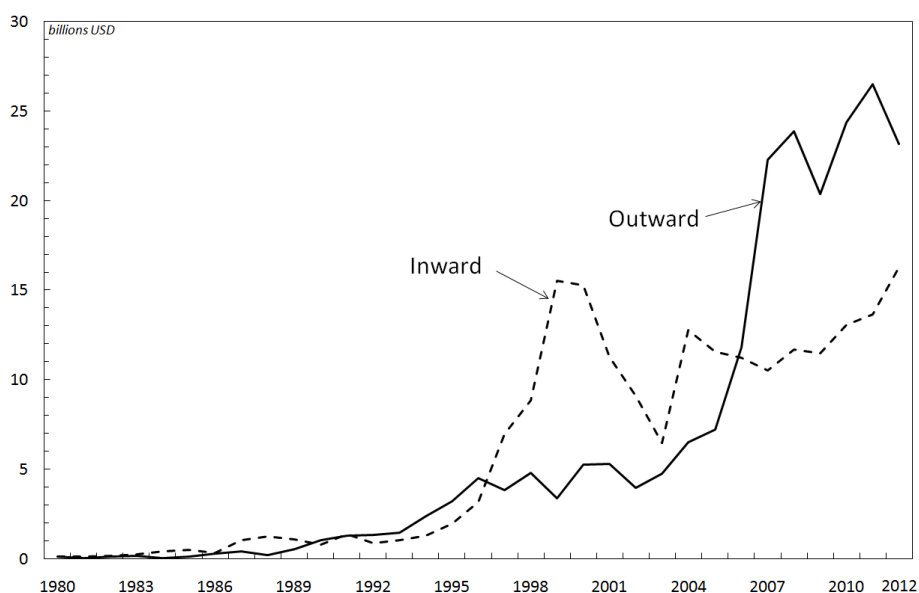


Figure 3.5 Outward and Inward Foreign Direct Investment

Source: Bank of Korea (<http://ecos.bok.or.kr>)

Moreover, and crucially, the trans-nationalization of Korean capitalism is by no means a unilateral process. The recent trends of foreign direct investment show that the outward flow exceeds the inward flow by a great margin. Korea's overseas direct investments increased from \$4 billion in 2002 to \$24 billion in 2008 and have reached \$26 billion in 2011. Although the inward flows of foreign investment have also increased over the same period, they grew at slower pace. Consequently, the difference between the outward and inward flows of direct investment has widened to \$13 billion in 2011 from \$549 million in 2006 when the former exceeded the latter for the first time since the 1997 crisis (see Fig.3.5).

As a result of the dramatic increase in outflowing foreign direct investment, several "Korean" companies are now ranked in the top 100 most trans-nationalized companies in the world. In 2006, the trans-national proportion of Samsung Electronics accounted for 31 percent of the book value of its assets and 34 percent of its employees (see Table 3.3). 78 percent of its sales are made abroad. In the cases of Hyundai Motor, Kia Motor, and LG, most of their sales revenues are realized trans-nationally. Korea's dominant-capital groups repeatedly announce that they have plans

to increase foreign direct investment, and that they are keen to merge with or acquire companies based in both developed and developing countries.³

Table 3.3 The Five Major Korean Trans-national Companies in terms of FDI
(As of 2006, Millions of Dollars, Number of Employees, and Percent)

Trans-national Companies	Assets		Sales		Employment	
	Overseas (% Share)	Total	Overseas (% Share)	Total	Overseas (% Share)	Total
Samsung Electronics	27,011 (31)	87,111	71,590 (78)	91,856	29,472 (34)	85,813
Hyundai Motor Company	19,581 (26)	76,064	30,596 (45)	68,468	5,093 (9)	54,711
LG Corp.	15,016 (28)	53,915	43,902 (62)	70,613	36,053 (52)	70,000
Kia Motors	6,767 (36)	18,655	11,525 (54)	21,316	10,377 (31)	33,005
Hynix Semiconductor	4,685 (28)	16,550	8,317 (100)	8,317	4,511 (28)	15,933

Source: UNCTAD *World Investment Report 2008* (<http://www.unctad.org>)

Regardless of the nationality of shareholders, the concentration and centralization of Korean capitalism tends to increase the impact of dominant capital on the policy-making process. Certainly, the massive *accumulation* achieved by the Korean *chaebols* (which is analyzed quantitatively and historically later on in this chapter) was related to the ever-expanding production. However, the relation between accumulation and production has little to do with the conventional wisdom that profit is proportionate to the specific productive contribution of tangible assets. In Korea as elsewhere, accumulation is determined not by production *per se* but by the *politics of production*, which involves geopolitical tension, the violence of the state, ideology, strategic sabotage, and above all the private ownership of property. The half-century-long history of Korean capitalism, which is delved into below, shows that the security of ownership through *exclusion* and the establishment of the power institutions that buttress it lie at the bottom of the appropriation of earnings.

The Emergence of Distributional Coalitions in the Postwar Era

The “primitive accumulation” of Korean capitalism started in 1945, as the US army and right-wing Korean social forces swiftly filled the power vacuum left by the

³The trans-nationalization of Korean capitalism is discussed in depth in Chapter 5. The rest of this chapter focuses on the centralization of Korea’s dominant capital.

defeated Japanese Empire. Capitalist development in the Korean Peninsula had begun earlier, around the turn of the twentieth century. Yet until 1945, this development was defined in terms of Japanese capitalist imperialism. No sooner had the Japanese colonists left the Korean Peninsula than the US and the Soviet armies occupied it. The occupation armies, dividing Korea into North and South, directly governed the entire social process in each territory from 1945 to 1948. In August 1948, when the South Korean government was officially established, power was transferred to the right-wing political clique led by Seung-Man Lee, the first president of Korea. The new power structure was anything but stable. Not a single day passed without violent conflicts between the left and the right; these struggles culminated in the Korean War.

Although chaotic, the first decade of the postwar era had a crucial impact on the future course of Korea. Dominant ideologies, social-distribution patterns, and dependency on Western superpowers, especially the US, were established during this period. The state controlled the process of capital formation by allocating the assets that the Japanese colonists left behind and the financial aid of the US and the UN. Due to the lack of business infrastructure, intimacy between entrepreneurs and bureaucrats (or cronyism) tended to determine business opportunities. Yet this period was also marked by the initial *commodification* and *privatization* of the highly centralized state power. Social changes during that era seem to confirm that capital has little to do with productivity *per se* and more to do with differential power over the processes of social production and reproduction.

The Transfer of Power

When Japan was defeated by the Allies, the supposedly invincible structure of power established by the Japanese imperial state-capital nexus suddenly collapsed. The power vacuum created two different flows of social forces that eventually collided head-on. One was a leftist bloc oriented towards autonomous socialist development. At the beginning, this leftist bloc gained popular support and seized the initiative in constructing the new nation state. Yet the blissful moment for the leftists did not last. The right-wing bloc failed to find broad grass-root backing and therefore relied heavily on US military force and right-wing Korean militias. Although many right-wing political leaders had dedicated their lives to national-liberation movements inside and outside the Korean Peninsula, their class background caused them to ally

themselves with traditional, mostly pro-Japanese, landlords and capitalists. This choice, in turn, further undermined their broad popularity.

In the end, though, it was the right-wing bloc that seized power. This seizure would not have been possible without the sheer force of the US military and the white terror of ultra-right-wing political gangsters. If the US and the USSR had not decided to divide and rule the Korean Peninsula, there would have emerged an autonomous socialist country.

On the eve of Japan's surrender, a leftist organization, the Preparatory Committee for Nation-Building, was asked by the Japanese Governor-General of Korea to take over the governance of the country, who recognized the nationwide network of the organization and its influence on Korean people. In return for the smooth transition of power from the colonists to Koreans, the colonial government wanted to ensure the safe return of the Japanese to their homeland. However, the hope for self-government was all of a sudden frustrated as the US and USSR decided upon a political trusteeship for Korea.

The US, which occupied the southern half of the Korean Peninsula, would not allow the Korean leftist bloc to lead the nation-building process. Violently suppressing leftist social forces, the US military government wholeheartedly supported the right-wing bloc. Seung-Man Lee, one of the major anti-Communist figures in the Korean government-in-exile, was chosen by the US to become the first president of Korea. During the Japanese colonial era, he had taken charge of foreign affairs for the government-in-exile in Hawaii, where he became acquainted with US politicians (the recent story of the Hamid Karzai government in Afghanistan echoes what happened in Korea in the second half of the 1940s). In addition to US military force, Seung-Man Lee's clique resorted to white terror. Woon-Hyung Yeo, the leader of the abovementioned Preparatory Committee for Nation-Building, was assassinated by right-wing gangsters; Goo Kim, one of Mr. Lee's major rivals within the conservative camp, was also killed by Lee's henchmen.⁴

As Marx mentioned, "force is the midwife of every old society pregnant with a new one" (Marx, 1887: 477). The state (or, more precisely, its ruthless violence) gave birth to capitalism in Korea. While the authoritarian government harshly suppressed the leftists and the underlying population, it offered Korean entrepreneurs many

⁴Acts of political terror committed by the right-wing bloc were not confined to individual assassinations. The right-wing bloc also repeatedly massacred innocent civilians. In a military crackdown on a civil riot, called the Bloody Third of April, 30,000 people were killed. This famous tragedy is just one example of many murderous acts committed during the Korean War.

“windfalls,” lucrative opportunities that were distributed differentially. There were two major openings that enabled some Korean businessmen to outperform their rivals at the starting point. The first opening occurred when the government decided to redistribute the assets the Japanese had left behind. The second opening was provided by the Korean War. As the war broke out, the US-led coalition of military forces sent to Korea by the UN was accompanied by massive financial and material aid. The allocation of this aid to the private sector by the Korean government created an unexpected bonanza for some Korean businessmen. It has to be noted, however, that it was not the “tangible” assets as such, but the “intangible” network of power that shaped the prosperous course of the Korean capitalists who later came to control the country’s dominant capital. Let’s look more closely at these two critical moments in the emergence of the Korean capitalist ruling class.

The Redistribution of the Seized Assets and the Formation of a Distributive Coalition

After Independence in 1945, all Japanese assets were seized by the US military government; these assets were transferred to the Korean government in 1948, which redistributed them to Koreans over the subsequent decade. The list of the Japanese assets included 2,690 factories and mines, 3,924 mobile assets, 225 ships, 2,818 depots, 9,096 shops, 48,456 houses, 2,386 orchards, 321,723 *hectare* of farmland, 152,084 *hectares* of housing sites, 69,460 *hectares* of woodland, etc. (H. G. Lee, 1999: 50). Although it is not easy to calculate the monetary value of these assets, there are indirect indications that can give us a rough idea. According to US military documents, in August 1945 the stock of Japanese foreign investment amounted to \$219 billion. Japanese investment in Korea accounted for 34.5 percent of this total, or \$75 billion (S.Y. Hur, 2005: 361).⁵ It is also known that factories owned by the Japanese accounted for about 80 percent of all industrial production during colonial rule (B.Y. Park, 1982: 89).

The redistribution of Japanese assets to the private sector was not *gratis*. Yet the prices and conditions of sale were “reasonable” enough for “customers” to snatch them up. The winners made down payments on the contracted assets, which typically amounted only to 10 percent of their total prices; the rest had to be paid over the next 15 years (Y. T. Kim, 2000: 110). Most of the redistribution of assets took place from

⁵The data are originally from *Japanese External Assets as of August 1945*, written by General Headquarters, Supreme Commander of the Allied Powers (SCAP) in 1948.

1947 to 1952; however, over the decade between 1947 and 1957, the wholesale price index of Seoul increased from 100 to 20,000 (see Figure 3.6). This hyperinflation helped devalue the remaining 90 percent of the purchase price to virtually nil.

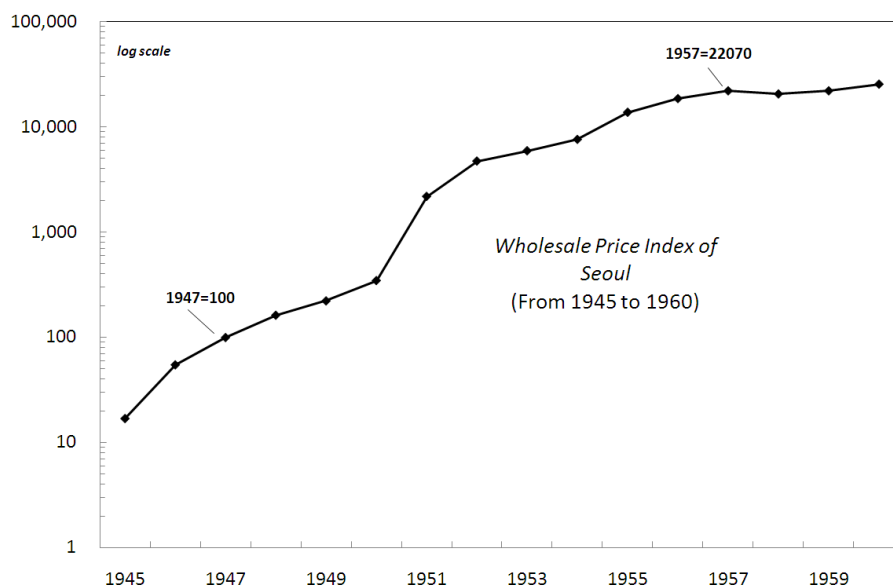


Figure 3.6 Hyperinflation in Korea in the Aftermath of the Korean War

Source: Economic Planning Board, *Korea Statistical Yearbook 1961* (downloaded from the Korea Assembly Library e-resource: <http://www.nanet.go.kr>)

Most of today's corporate giants benefitted from this asset allocation. The biggest winners were the current top 10 groups—Samsung, Hyundai, LG, SK, Doosan, Hanjin, Hanwha, Ssangyong (STX), Kumho-Asiana, and Lotte—for whom the process offered a springboard for their future success. Among the many stories, those of the SK, Doosan, and Hanwha Groups are perhaps the quintessence of the redistribution process.

The most important redistribution criterion set by the US military authorities and the Korean government was the “proximity” of applicants to the assets concerned. Jong-Gun Choi, the founder of the SK Group, controlled a company named Sun Kyung Textile, for which he had worked after the Japanese owners had left Korea. He and his colleagues set up a kind of workers' council through which they ran the company. In 1953, they became the official owners. In the case of the Doosan Group,

the founder had 200 stocks of Sohwa Kirin Beer,⁶ which later became one of the group's leading companies. His ownership accounted for only 0.3 percent of the whole stock. He persuaded the US military government to recognize him as the manager of Sohwa Kirin Beer in October 1946; in 1953, he formally contracted with the Korean government to own it. The story of the Hanwha Group was characterized by the cleverness of its founder, Jong-Hee Kim, who had originally worked for a military industrial company named Chosun Explosives. When the Japanese owners left, he began to sell the inventory and pocketed the proceeds. Later on, he used the money to buy out Chosun Explosives from the government and renamed it Hanwha (B.Y. Park, 1982: 90).

Capitalist development under Japanese imperial rule and the subsequent redistribution of the seized assets in the wake of Japan's defeat played a significant role in shaping the future course of Korea's dominant capital. Economic historians and developmentalists focus on the cumulative effect of the "tangible assets" built up during the period (Textbook Forum, 2008; Eckert, 1991; Cummings, 1984; Woo-Cummings, 1991). But the significance of these tangible assets was secondary. What was transplanted during the colonial era and later inherited by the Korean ruling class was not so much the labour stored up in tangible artefacts such as bridges, railroads, harbours, and plants as specific *social relations* that were characterized by the power to yield private profits to the ownership of the capitalist class.

As Table 3.4 suggests, most of the major *chaebols* started their business during the Japanese colonial era. After the Second World War, most of these future *chaebols* were allotted one of the tangible assets seized from the Japanese. Yet it was not these tangible assets *per se* that paved the way for the Korean *chaebols*. The founders of the future conglomerates attained not merely factories, but an increasingly structured system of relationships with politicians and bureaucrats. To use Olson's terminology (1965; 1982), this stage of Korean capitalism was marked by the initial formation of "distributional coalitions." Indeed, the purchases of the seized properties were often accompanied by exclusive licenses for the importation of raw materials, low-interest loans, tax reductions, and dollar allotments with preferential exchange rates (Jones & Sakong, 1980: 271).

⁶Sohwa Kirin Beer was a subsidiary of Kirin Brewery, which is currently one of the largest beer-brewing companies in Japan.

Table 3.4 The Inception of the Korean *Chaebols*

Chaebol	Founder	Inception	Start-up Company(Business)
Samsung	Lee, B.C.	1938	Samsung Sanghoe (General Trading)
Hyundai	Jung, J.Y.	1938	Gyungil Sanghoe (Grain Shops)
SK	Choi, J.G.	1953	Sunkyung Textile (originally established by Japanese colonists in 1939)
LG	Koo, I.H.	1931	Koo-In Sanghoe (Linen Shops)
Lotte	Sin, G.H.	1946	Hikari Chemical Research in Japan (Soap & Gum) → Lotte Confectionery Korea (1967)
Kumho-Asiana	Park, I.C.	1946	GwangJu Taxi (Transportation)
Hanjin	Cho, J.H.	1942	E-Youn Engineering (Repairing of Engines)→ Hanjin Sanghoe (1945, Transportation)
Hanwha	Kim, J.H.	1952	Chosun Explosives (established by Japanese colonists in 1939)→ Korea Explosives (1952)
Doosan	Park, S.J.	1898	Park Seung-jik Shop (Cotton Retail)
STX	Kim, S.G.	1976	Ssang-Yong Heavy Industry (Shipbuilding, Machinery)

Sources: Individual websites of the *chaebols*; H.K. Lee (1999)

Despite their initial importance, the impact of tangible assets left behind by the Japanese colonists gradually fizzled out. Much of the industrial infrastructure was destroyed during the Korean War of 1950-1953. First, a significant portion of these assets was located in North Korea: about 70 percent of all industrial facilities built during the colonial era ended up in what became North Korea (B.Y. Park, 1982: 89). Second, the original “start-up” companies set up by the founding fathers of Korean dominant capital were very small, and even those small businesses had had to close during the Second World War, when Japan had converted the Korean economy to a war footing.

Opportunities in Chaos

The Korean *chaebols* began to take shape only when they seized the opportunity to differentially *capitalize* the massive military and financial aid offered by the US and the institutional support of the dictatorship. Furthermore, even with war mobilization, in the 1950s South Korea was one of the least industrialized countries in the world. The possession of existing factories was not as important as the establishment of

long-lasting symbiotic relationships with politicians and bureaucrats who monopolized most power over social processes. In my view, the most important aspect of the early redistribution process was the formation of Korea's new ruling classes and the establishment of the *particular* ways in which they would from then on divide up and restructure social wealth and power. The "reciprocal" interaction between businessmen, bureaucrats, and politicians shaped their collective identity as the ruling class and set the general pattern for the reproduction and transformation of power.

The Korean War, which lasted three years, devastated the already-weak political economic structure. Over the next ten years, Korea's ruling classes had no choice but to rely entirely on the aid offered by the US and the UN. Yet it was the Korean government that was in charge of redistributing the aid of both goods and funds. Thus, once again, the relationship between businessmen and bureaucrats played a decisive role in determining *who* would take what share of the aid pie. Bribes were central to this redistribution process. Bureaucrats and politicians provided businessmen preferential treatment in return for bribes. Bribes meant more than personal corruption: bribery was a systematic means through which the right-wing authoritarian government attempted to perpetuate its rule on the one hand while capitalists *commodified* and *privatized* state power on the other.

International aid for Korea started when US military forces occupied South Korea in the wake of Japan's defeat. The US used its GARIOA (Government and Relief in Occupied Areas) program to provide emergency aid to the occupied nations, such as Japan, Germany, and Austria. Most of the aid to Korea, though, was offered after the end of the Korean War.

The total aid given to Korea by the US, the UN, and civilian aid organizations from 1945 to 1961 amounted to \$3.1 billion. Of this, \$2.5 billion, more than 80 percent, came from the US through diverse state organizations such as the ICA (International Cooperative Alliance), the Economic Cooperation Agency, and PL480 (Public Law 480). The other \$600 million was offered by the UN and civilian aid organizations. Taking into consideration the US rate of inflation and assuming a 3 percent real rate of return, the international (or US) aid, if invested, would amount to

\$120 billion in today's prices.⁷ From 1952 to 1960, aid programs financed about 72 percent of Korea's imports (Economic Planning Board, 1961: 263).

Table 3.5 Foreign Economic Aid and Relief Goods (1945-1961, thousands \$US)

Year	Sum	USA	CRIK	UNKRA
1945-7	229,801	229,801		
1948	179,593	179,593		
1949	116,509	23,806		
1950	58,706	142,033	9,376	
1951	106,542	31,972	74,448	122
1952	161,327	3,824	155,534	1,969
1953	194,170	5,803	158,787	29,580
1954	153,925	82,437	50,191	21,297
1955	236,707	205,815	8,711	22,181
1956	326,705	304,004	331	22,370
1957	382,892	368,789		14,103
1958	321,272	313,525		7,747
1959	222,204	219,733		2,471
1960	245,394	245,150		244
Total	3,137,302	2,557,840	457,378	122,084
Share (%)	100.0	81.5	14.6	3.9

Note: "CRIK" and "UNKRA" respectively stand for "Civilian Relief in Korea" and "United Nations Korean Reconstruction Agency."

Sources: Economic Planning Board, *Korea Statistical Yearbook 1961; 1962*.

Formally, the Korean government distributed the aid through "public" auction. Due to the big spread between official and market exchange rates, the very allocation of dollars could generate huge profits to those receiving them. The Korean government had a complex system of official rates: it consisted of a basic official rate, a rate for UN soldiers, a rate for UN organizations, etc.⁸ It has to be noted again that the auction of the aid money was tied to licences for international trade, especially for importing

⁷The rate of return is applied in a cumulative way: it is computed at compound interest. The inflation index refers to the Consumer Price Index offered by the US Bureau of Labor Statistics (<http://www.bls.gov>).

⁸For example, on January 1955 the official exchange rate was 180 hwan/dollar; the rate for UN soldiers 430; the rate for UN organizations 430; the weighted average of the US Army dollar auctions 520. In 1962, Korea introduced a new currency—the won—which was set as equal to 10 hwan.

goods into Korea, along with the preferential exchange rate system. As the Korean government pursued import-substitution policies with import barriers, the recipients of the aid money were also able to enjoy an oligopoly in the domestic market. In this way, those with access to aid funds at preferential exchange rates tended to outperform their competitors. The key to their success was their unscrupulous relationship with politicians and bureaucrats.

One of the major beneficiaries of this arrangement was the founder of the Samsung Group, Byung-Chul Lee. His fortune was made in the food industry, which, along with construction and textiles, featured prominently in the growth that followed the Korean War. He borrowed aid funds that he then used to set up Cheil Refinery, a sugar and flour mill later to become the CJ Group. Then he applied for agricultural products that were distributed as free aid. It is known that Cheil Refinery, together with its rival, Samyang Refinery, received \$550,000 for investing in facilities and \$16.4 million for importing raw materials (B.Y. Park, 1982: 135). Although these loans had to be repaid with interest, the debtors took advantage of hyperinflation, whose rate was much higher than the interest rate at which they had borrowed (which was already much lower than the average). While the annual interest rate on private loans in the mid-1950s was about 48 percent, leading businessmen like Mr Lee, who were supported by the government's strategic industrial policies, could borrow huge sums from the government-run industrial bank at rates as low as 10 percent; if they obtained access to UNKRA loans, the rate was as low as 3 percent! (J. W. Kong, 1992: 25-6).

Table 3.6 Cheil Refinery's Share in the Sugar Market (Unit: Ton)

Year	Cheil Refinery (A)	Other Korean Refineries	Imported Sugar (C)	A/(A+B) (Percent)	A/(A+B+C) (Percent)
1954	9,635		19,288	100	33.3
1955	26,203	537	13,955	98	64.4
1956	32,567	29,371	5,000	52.6	48.6
1957	12,990	18,329	2,973	41.5	37.9
1958	27,838	23,214	N.A.	54.5	N.A.
1959	37,402	22,203	590	62.7	62.1

Sources: Samsung, 1988: 125; I. Back, 1994: 70.

Byung-Chul Lee's Cheil Refinery enjoyed early-bird privileges secured by his good relations with politicians and bureaucrats. Table 3.6 shows that in the first years after the Korean War, the Cheil Refinery held a nearly monopolistic position in the sugar market. But high profitability attracted new entrants, and its market share was significantly reduced, falling to 41.5 percent in 1957. Yet Cheil Refinery defended its dominant position. According to one study, due to excess investments, supply exceeded demand by two-thirds in 1957: the study estimated that the demand for sugar was 50,000 tons, while production by the seven major refineries reached 150,000 tons (J.J Lee, 1993: 104). A price war was inevitable, and by 1959 Cheil Refinery emerged as the winner. Of the six other majors, only two survived.

Another important axis in the early state-capital nexus were monopoly contracts in construction. War devastation gave way to a construction boom and a bonanza for the leading construction companies. More than 1,000 small construction companies emerged and competed for contracts ordered by the US military and the Korean government. However, most deals were made behind closed doors, and probably not a single contract was signed without bribery. Furthermore, it was very common to mobilize gangsters in order to intimidate competitors. In this way, the renaissance in the construction industry coincided with the heyday of the Korean mafia. Among the mushrooming construction companies, the five best-performing ones were the Five Sisters of the Liberal Party (the ruling party throughout the 1950s). One of these firms was Joo-Young Jung's Hyundai Construction.

Growing through the "chaotic" aftermath of the Korean War, some companies that managed to accumulate differentially began to assume a rudimentary form of conglomerates. Since the late 1950s, the term *chaebol* became increasingly popular in Korean society. A dozen or so companies expanded rapidly enough to be conceived as *Konzernen*, firms in command of many daughter companies. Of these, the most prominent was the Samsung Group. The LG Group (Lucky at the time) and the Hyundai Group were also highly diversified conglomerates, but in terms of business scale and scope, they were dwarfed by the Samsung Group. The latter had leading companies in virtually all major sectors, including trading, manufacturing, and finance.

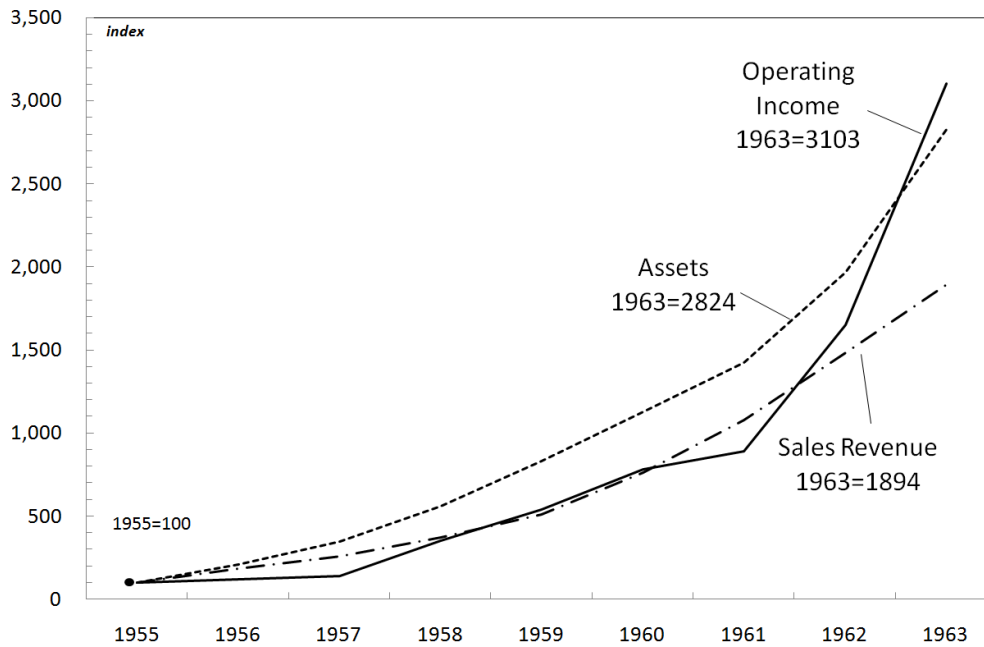


Figure 3.7 The Rapid Expansion of the Samsung Group (rebased 1955=100)

Note: Series are smoothed as three-year moving averages.

Source: Samsung, 1988.

In 1960, the list of Samsung's companies included Samsung Trading (the mother company), Hyosung Trading, and Geunyoung Trading in the trading business; and Cheil Refinery, Cheil (Fabric) Industries, Hankook Tire, Korea Machinery, Honam Fertilizer, Samchuck Cement, Chosun Brewery, and Dongil Textile in manufacturing (H. G. Lee, 1999: 73). In 1956, Samsung came to possess and run three commercial banks that had been privatized by the government. It owned 85 percent of Heung-Up Bank, 50 percent of Cho-Heung Bank, and 24 percent of Commerce Bank (B. Y. Park, 1982: 140-2). The privatization of commercial banks was designed to establish a systematic nexus between the right-wing government and capital, for the mutual benefit of both: the Samsung Group secured the goose that laid the golden eggs, while the ruling party secured a stable source of finance. Byung-Chul Lee's excellent ability to network resulted in brilliant business performances during the 1950s. The book value of Samsung's assets increased 28-fold between 1955 and 1963; sales revenue 19-fold; and operating income 31-fold (see Figure 3.7).

A New Corporate-State Coalition

Not all the distributional coalitions of the 1950s ended up as dominant-capital groups. As with every organism, biological as well as social, the incipient stage of these coalitions was innately unstable. Most of the founders of the current dominant-capital groups managed to benefit from the redistribution of the colonists' assets and the international aid. But that alone was neither necessary nor sufficient to ensure longevity. As Table 3.7 shows, out of the top 10 business groups in 1960, only two (Samsung and LG) remained in 1972, when the first two consecutive periods of the Five Years' Economic Plan had ended. This turnover stands in sharp contrast with the relative stability of the top 10 groups thereafter.

Table 3.7 Top 10 *Chaebols*

Year	1960	1972	1979	1988
Top 10 <i>Chaebols</i>	Samsung	Samsung	Samsung	Samsung
	LG	LG	LG	LG
	Samho	Hyundai	Hyundai	Hyundai
	Samyang	Hanjin	Hanjin	Hanjin
	Gaepoong	Hanhwa	Hanhwa	Hanhwa
	Daehan	Daewoo	Daewoo	Daewoo
	Dongyang	Ssangyong	Ssangyong	Ssangyong
	Kukdong	Kukdong	SK	SK
	Hwashin	Daenong	Hyosung	Hyosung
	Hankook Glass	Sinjin	Kookje	Lotte

Source: Economic Planning Board (quoted from Y. T. Kim, 2000: 123)

The relative volatility of the initial distributional coalitions was not just a narrow matter of business ranking. At the beginning of the 1960s, the mode of power as a whole seemed on the brink of collapse. President Lee, the head of the regime, faced strong resistance from below as he and his political party tried to reform the Constitution so that he could run in another presidential election. His attempt was successful. He was elected as the third and fourth president of Korea after the reform. Yet during his fourth term in office, it was revealed that his party had rigged the elections, and that revelation led to a popular uprising. During the uprising, the police

indiscriminately shot citizens at a protest rally near the presidential palace; 183 protesters are estimated to have been killed that day. The incident encouraged more people to join the uprising against Lee's government and party. The process culminated with Lee going into exile and with Giboong Lee, his closest henchman and the vice-president, committing suicide.

Lee's regime was not replaced by a revolutionary government; but the Democratic Party, which became the ruling party in the following election, had no choice but to accommodate political demands from below. One key demand was to clean up the rampant corruption and bribery. Consequently, the new government was compelled to take steps to bring to justice many entrepreneurs who had unscrupulously used their relationship with bureaucrats and politicians in order to accumulate massive wealth during Lee's presidency. Some of the *chaebol* founders, including the founder of Samsung, stood to lose their entire fortunes if the government carried out its intended reforms. However, the reform drive fell short of people's expectation, leading to renewed social unrest. The government was unable to restore social order and in May 1961, a year after the beginning of the uprising, the military, led by Jung-Hee Park, staged a coup.

In order to justify the coup, the military government promised to continue the reforms planned by the Democrats. It announced that it would bring to justice those who had made fortunes in unjust ways such as selling the redistributed colonists' properties, getting loans in return for bribery, obtaining construction projects through illegal lobbying, evading taxes and sending capital out of the country (H.G. Lee, 1999: 123-4). Most owners of the major business groups that had grown rapidly in the 1950s—such as Samsung, Hyundai, and LG—were included in the list of arrests. This move by the military government scared entrepreneurs into making a gesture of atonement: Byungchul Lee, the founder of Samsung, along with several others, promised to donate their entire fortunes to society.

Yet it turned out to be much ado about nothing. Just thirteen *chaebol* owners were arrested, and all were soon released with a promise from the military that they would be favoured in the forthcoming process of industrialization. The result was the so-called Grand Compromise, a process in which a group of businessmen secured exclusive powers over the future course of Korean society while paying a mere 5.8 percent of their original fine (ibid.).

The compromise between the military government and major capitalists was integral to the process of restructuring the distributional coalitions formed in the

1950s. It has to be noted that the businessmen did not merely play a passive role in this process. These businessmen actively and systematically demanded and negotiated what they wanted. Ironically, it was the thirteen entrepreneurs arrested for corruption by the military government who initiated the conversation and cooperation with the state. Soon after their release, the thirteen entrepreneurs organized the Association for the Promotion of Economic Rebuilding⁹ (Y.T. Kim: 2000: 70). Although there were a lot of backdoor deals, it was officially through this organization that major capitalists cooperated and negotiated with the military government, often to the disadvantage of other capitalists.

Apparently, the military government had a good reason to privilege this select group of capitalists. The military needed to quickly prove its ability to solve political economic problems such as chronic poverty, cyclical spring famine, and massive unemployment. By privileging the said business group, it could justify the necessity of the coup as a way of transforming the provisional “revolutionary” government into a “normal,” elected one. They tended to think that the most effective way of achieving this goal was to exclusively support a few “experienced” businessmen with the needed know-how.

The Iron Fist and the Invisible Hand

Park’s military dictatorship lasted for eighteen years, until Jae-Gyu Kim, his right-hand man and lifetime friend, assassinated him in October 1979. Park’s death could have signalled the dawn of the Seoul Spring. However, it ended up with a tragedy as cruel as that of the Prague Spring. There was another military coup, led by Doo-Hwan Jun, whose proximity and loyalty to Park won him the nickname “Park’s foster son.” Koreans had to wait another seven years before they saw change. And if Lee’s twelve-year authoritarian government is added to the 25-year military dictatorship, Koreans suffered under oppressive regimes for about forty years.

During those forty years, the authoritarian regimes had certainly succeeded in building up business infrastructure, but this infrastructure cannot easily be credited with generating Korea’s rapid growth. Figure 3.8 compares the experience of Korea

⁹The name of this group was subsequently changed to the Association of Korean Industries and then to its current name, the Federation of Korean Industries.

with the OECD average (an analysis similar to the one undertaken in Nitzan & Bichler, 2001).

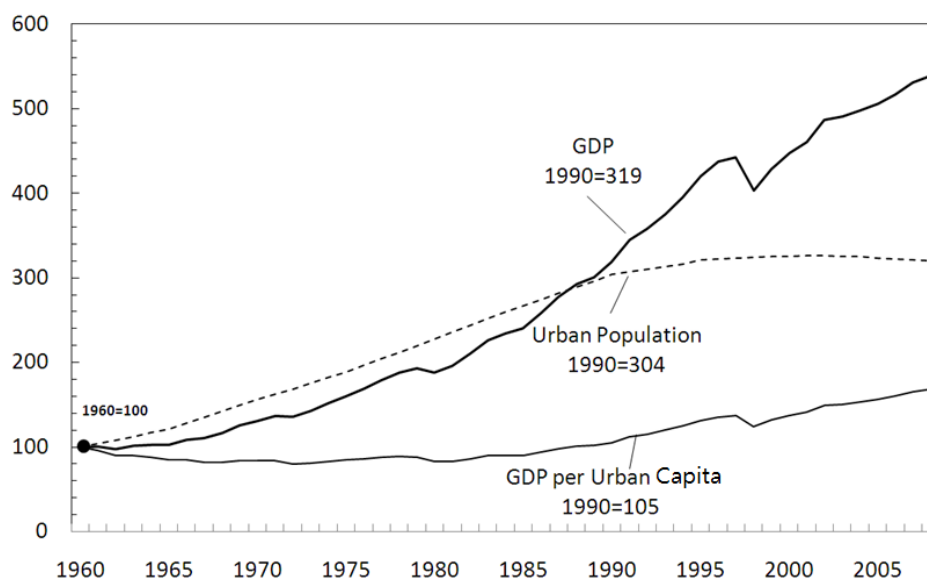


Figure 3.8 Differential Analysis of National Development (Korea/OECD, rebased 1960=100)

Source: World Development Indicators

The chart shows three differential series: GDP, urban population, and GDP per urban capita—each of which is expressed as a ratio of the Korean and OECD numbers and normalized with 1960=100. In 1990, the figures for each series were 319, 304, and 105, respectively. These numbers show that Korea’s GDP and urban population under the military regime grew three times faster than those of the OECD. Yet the relative growth of GDP per urban capita verifies Krugman’s argument (1994) that, until recently, the rapid development of Korea relative to the OECD was almost entirely dependent on the mobilization of labour.

The Autonomy of the State?

Statist developmentalism tends to classify and periodize Korea’s economy based on GDP growth rates: the slow-growth period till 1960 is associated with the *predatory state*, while the rapid-growth period since the early 1960s is linked to the *developmental state* (Evans, 1995: 12). The key difference between the two regimes, the developmentalists argue, is the “autonomy” of the developmental state (Amsden,

1989; Haggard, 1990; Wade, 1990). While the predatory state, tied to civil society, encourages rent-seeking activities without contributing to economic development,¹⁰ the developmental state is freer from interest groups, and therefore can more easily pursue “the national interest.” However, the notion of autonomy here is not only conceptually problematic, but also empirically wrong.

It is true that corporate profits and the accumulation of capital in the 1950s were based on not so much industrial development as on *corrupt cronyism*. As mentioned above, power over the social process of production was monopolized by the state, and capitalist power institutions therefore had to be built through the state. Only those who managed to secure relationships with politicians and bureaucrats could join the distributional coalition struggling over the allocation of former Japanese assets, international aid, and licenses for trade and construction.

This context may seem consistent with the notion that the Korean state-capital nexus during the 1950s was characterized by rent-seeking capital and the predatory state. However, the problem is that Korean governments both hitherto and thereafter have had the *same* characteristic features. The Jung-Hee Park government—which developmentalists praise for its promotion of rapid industrial expansion—provided direct subsidies, tax reductions, and preferential interest and exchange rates for a chosen group of businessmen, adopting the very rent-seeking behaviour developmentalists decry (N.Y. Kim, 1999). It seems, then, that the so-called “economic miracle” since the 1960s cannot be understood *without* these “rent-seeking” mechanisms.

“Rent-seeking activity,” if one insists on using this term, is common to the Korean political economy *throughout* its capitalist history. But the term itself is misleading, in that it suggests an alternative form of accumulation that is somehow free from power and coercion. The use of power and coercion in accumulation arises from the very nature of capital. In my view, business performance cannot but interlock with state activity and institutional arrangements because capital represents the ability of capitalists to control and shape the social process. At the initial stage of capitalist development, when business infrastructure was not well established, the

¹⁰The predatory state is a mirror image of rent-seeking capital. Neo-classicists hold that state intervention in the economic sphere, especially in developing countries, through subsidies, preferential finances (e.g. tax reductions, interest rates, and exchange rates), and protectionism cannot but result in the tendency of the private sector to pursue rent-seeking (Krueger, 1974). This situation, in turn, leads bureaucrats and politicians to maximize their own self-interest. Going beyond personal bribes, they tend to institutionalize their claims on social wealth. As a result, the state is transformed into an inefficient predatory one (Grindle, 1991: 49-50).

symbiosis between the state and capital was more visible. But that symbiosis continues to exist as capitalism develops, although often in less visible forms.

On the surface, the Korean military dictatorship, with its absolute power and systematic interventionism, may seem to empirically validate the argument for the “autonomy of the state.” Indeed, the authoritarian government restricted the “freedom” of capitalists in various ways. It controlled financial flows mainly by nationalizing all the major commercial banks, prevented capitalists from depositing their savings abroad, limited extravagance, and guided the private investments of corporations (Amsden, 1989).

Yet it would be misleading to see these actions as proving the autonomy of the state for at least two reasons. Firstly, Korean capitalists were hardly passive in shaping the course of industrialization. It is now known that the main features of the consecutive Five Years’ Economic Development Plan were developed in line with the opinions of dominant capital (I.Y. Kim, 1998). The communication between the state and capital was systematically organized and institutionalized. Businessmen actively “intervened” in policy-making both through the official channels of organizations such as the Federation of Korean Industries, the Korea Chamber of Commerce & Industry, and the Korea Employers Federation, as well as through backdoor deals. Many significant decisions made by the Economic Planning Board—the government organization key to Korea’s industrialization and the building-up of industrial complexes, to opening free-trade zones, and to setting up the Korea Export Industrial Corporation—were initiated by the Federation of Korean Industries (Federation of Korean Industries, 1983).

Secondly, even if the state could be seen as holding the upper hand in its relationship with capital, that does not in itself mean that the state represented the national interest. The dictatorship had never been independent of Korean civil society. It was almost entirely biased towards the capitalist class. The state helped capital in general and dominant capital in particular to privately appropriate the development of industry, i.e., the fruit of the entire social effort. Of course, this support was not *gratis*. In return for the state’s systematic help, dominant capital provided political funding to the ruling party and bribes to bureaucrats and politicians, officially as well as secretly.

While it is true that the authoritarian state established an overgrown apparatus of supervision and inspection, this apparatus had no transparency in the least; the abuse and misuse of bureaucratic power was widespread. Rent-seeking activities were

so rampant that they became a socially accepted norm. The state's relationship with capital could be defined as anything but "autonomous." Rather, the cronyism of Korea's distributional coalitions came to be more systematized as the military elites, having seized power through a coup, formalized their symbiotic relationship with capitalists.

An Alternative Understanding: The State Cocoon Thesis

As some development economists recognize, the significant role of the state in capital formation at the initial stage of capitalist development is not confined to "late late capitalism"; the same feature can be found in "early capitalism," as in England, as well as in "late capitalism," as in Germany's (Murakamy, 1994; Weiss & Hobson, 1995). Seen from the perspective of *capital as power*, there is nothing peculiar to the state's integral role in capitalist development, especially in its early stage. Capitalists' earning power represents their ability to control the social processes of production and reproduction. The historical expansion of this power could not have been possible without their relationship with the state, which involved both cooperation and tension.

Yet it is not enough to emphasize the connectedness of the two. The key is to see the mutual transformation of the nature of both state and capital through their historical interaction.

Korean political economists, whose opinions can be characterized as broadly Marxist, have criticized mainstream economists for ignoring the anti-democratic and class-biased nature of the East Asian developmental model. Their approach to capitalist development during the military regime is characterized by an emphasis on the state's role in the accumulation of capital and in the ideological legitimization of the ruling classes (S. H. Jang, 2006). These views echo the Western Marxist debates on state theory mentioned in Chapter 2.

With some differences in details, these leftist theoreticians argue that the dictatorship and the Cold War were crucial for capital accumulation. For example, Sung-Jin Jeong¹¹ (1997; 2006), one of the most orthodox Marxists in Korea, holds that the regime of accumulation before 1997 was founded on the lopsided relationship between capital and labour. In his view, this regime of power was made possible

¹¹His theory of accumulation draws on three theoretical influences: Marx's tendency of the rate of profit to fall, the Trotskyist concept of the Permanent War Economy, and the Social Structure of Accumulation theory.

through the oppression of labour by the authoritarian government, and the geopolitics of the Cold War, which enabled the Korean dictatorship to win concessions from the US and Japan in the form of political, economic, and military support. It was with this help, he argues, that Korean capitalists were able to establish their successful export-oriented economic regime. Other leftist scholars, influenced by the Regulation School, make arguments similar to Jeong's, with a bit more emphasis on the connectedness of economics and politics. These scholars try to replace the theory of the developmental state with a theory of developmental dictatorship. The terminology implies that the political economy of the past was a "harmonious" combination of the regime of extensive accumulation and absolute surplus value, on the one hand, and the mode of authoritarian regulation and nationalist ideology, on the other (B.C. Lee et al, 2003b).

Though leftist approaches to Korea's capitalist development do try hard to go beyond the dichotomy of economics and politics, their efforts have not been very successful. Their analyses of accumulation in effect do not include institutional arrangements other than labour relations. In other words, they do not suggest how to build a bridge between the quantitative analysis of accumulation, on the one hand, and qualitative social processes such as "dictatorship," "nationalism," and the "Cold War," on the other.

As mentioned in the previous chapter, the fundamental limit of Marxist approaches lies in the fact that they separate the "economic" realm from the "political" realm to begin with. This problem in turn stems from the residue of modern ontology, which presumes individuated entities in absolute space (Nitzan and Bichler, 2002; 2010). Although Marx and Marxists try to understand the totality of the social process, they fall short of discarding the idea that "the state, being a 'political' entity, is distinct from the 'economy,' by definition," and that "that distinction necessitates two different forms of power: 'economic exploitation' and 'political oppression'" (Nitzan and Bichler, 2010: 3). This distinction makes it impossible for Marxists to grasp the *intertwined* transformation of the state and capital.

Thus, for many theoreticians in the Korean progressive camp, recent neoliberal changes appear to be a "structural break"—a term that is discussed extensively in the next chapter. Certainly, recent changes appear to show that government's policies have become "business friendly" and that its direct intervention in the business world has been weakened. Yet it is misleading to dub this change a structural break with the past, especially when it is presented in terms of "state" versus "market." Capital,

which is always and everywhere a form of power, cannot work apart from the state. For this reason, the recent neoliberal changes have to be seen as the latest steps in the progressive development of the capitalist social order.

In their research on the evolution of the Israeli political economy, Nitzan and Bichler have argued that the state constituted the cocoon of capital (2002: 17, 96). Similarly in Korea, the relationship between the state and capital, and their transmutation via mutual symbiosis, can also be analyzed using the cocoon analogy. In the early years, the authoritarian state apparently subordinated business interests to its own aims. Yet no matter how strong the military regime might have been, its power was wielded in the context of a particular social order. As the business infrastructure was gradually established through the initiative of the state, social relations and the processes of production and reproduction increasingly became *commodified*. And as this commodification enabled capital to turn more and more of the state's "public features into the integral facets of private accumulation," the presumably omnipotent military government was becoming tied to the *modus operandi* of the business world in general and the interests of dominant capital in particular.

Note, however, that the interaction of the state and capital is not merely the interaction of "politics" and "economics." As I'll show later in this work, the two social entities, intertwined through their mutual interaction, have progressively been amalgamated into a unitary capitalist social order, and the various factions of the ruling classes have merged into a single ruling class. This mutual transformation does not mean that "neoliberal" Korean capitalists have actively democratized the military regime on their own initiative. In fact, Korea's dominant capital supported rather than challenged the authoritarian government even when the dictatorship was on the brink of collapse. Nevertheless, they have grown large enough to hijack the democratization process opened up by the struggles of the underlying population. Because of the state "cocoon" within which capitalist institutions and business infrastructure had been allowed to develop until recently, the ever-growing power of Korean capital has largely been made invisible. It therefore seems as if its powerful influences on the social process appeared out of thin air during the recent neoliberal phase.

Differential Accumulation under the Dictatorship

Development and Sabotage

The capitalist mode of power in Korea, which eventually shed off the seemingly omnipotent state cocoon, was built upon the ability of dominant capital to *strategically sabotage* the social processes of production and reproduction. During the early stage of capitalism, sabotage, which Veblen (1921: 38) defined as “the conscious withdrawal of efficiency,” referred to the capacity of capitalists to maintain a certain level of earnings by strategically limiting production below its full potential.¹² It may sound strange to refer to the regime of accumulation under the military dictatorship, which is characterized by the rapid expansion of industry, as underpinned by “the limiting of production.” But, in fact, the notion of sabotage is not at odds with Korea’s capitalist development. Indeed, it enables us to grasp the basic nature of this development.

All modes of power are based on institutionalized exclusion, and sabotage is the *capitalist* form of exclusion. The nature of private ownership entitles capitalists to preclude wage labourers from participating in production and thereby from the reproduction of their lives. The strategic exercise of this power is manifested in chronic unemployment, a certain level of which economists refer to as the “natural” rate of unemployment. Capitalist sabotage is also inflicted on capitalists themselves. The purpose is to “redistribute the pie, but that almost always involves restricting its size, particularly by limiting the slice of others” (Nitzan and Bichler, 2002: 38). Over time, various forms of sabotage have developed. The scope of sabotage has expanded beyond the workplace and has come to rely on “the broader political realm of the state, including aspects of policing, propaganda, taxation, tariffs, subsidies, patent laws and intellectual property rights, as well as [on] international institutions such as trade zones, regional investment agreements and global government-backed corporate alliances” (ibid: 35). Sabotage is the means through which capitalists limit the power of others—including the power of other capitalists—over the social process.

As mentioned above, central to Korea’s capitalist development during the authoritarian regime was the state’s provision of *differential* forms of support to

¹²Veblen’s definition of “sabotage” explicitly refers to the deliberate disruption of production on the part of managers and owners of business. Nowadays, the term is used in reference to the actions of labour, including slowdowns, strikes, etc.

dominant capital, including direct subsidies not given to others, selective tax reductions, preferential interest and exchange rates, specific preferential access to foreign loans, and, above all, suppressive labour policies. These overt but selective forms of state support for capital and particularly to the leading capitalist groups are typical examples of sabotage.

External Breadth

The net effect of this sabotage is represented symbolically by the trajectory of differential capitalization. Figure 3.9 provides two measures of capitalization for the 1973-1996 period. The first is the average capitalization¹³ of the top three business groups. The second is the differential ratio of the capitalization of these three groups to that of the average manufacturing corporation.

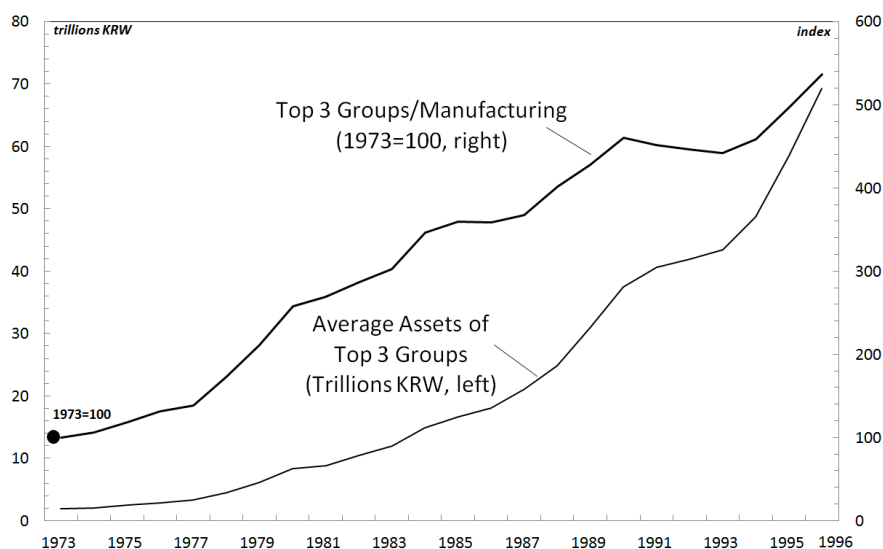


Figure 3.9 Average Firm Size in Korea (rebased 1973=100)

Note: The Top 3 groups are the Samsung, LG, and Hyundai Groups. The data are recalculated in real terms (constant 2000 KRW) before they are rebased. The data for the Hyundai Group cover the period from 1980 to 1996.

Sources: Samsung, 1998; LG, 1997; for the assets of Hyundai 1980-1985, Hankook Ilbo 1986; for the assets of Hyundai 1986-1996, Fair Trade Commission; Bank of Korea for the assets of the manufacturing.

¹³Precisely speaking, capitalization is to be measured by the market value of all outstanding equity and debt, which represents the discounted value of expected profits. Here, the analysis is based on book value in the financial statements simply because the market value data are often not available, and certainly not for the early years. However, as the purpose of the analysis is to show developments over the long term, the use of this alternative measure should not be much of a concern.

As seen from Figure 3.8, it is true that, under the authoritarian regime, there was a rapid expansion of production in general, much faster than the OECD average. Yet underneath this generalized expansion was the more important *power* process of differential accumulation by dominant firms and their gradual transformation into massive distributional coalitions. Over the period of 1973-1996, the average assets (constant 2000 KRW) of the top three business groups—Samsung, Hyundai, and LG—increased 37 times over from 1,861 billion KRW to 69,312 billion KRW. If the ratio of their average to that of the manufacturing sector is rebased to 1973=100, the value of the index in 1996, just before the 1997 crisis, was 536 (or five times bigger than in 1973). This differential performance means that, on a compounded annual basis, dominant capital grew *twice* as fast as the average manufacturing corporation. While the average capitalization for the top three groups increased at a rate of 17.4 percent per annum, the average for the manufacturing sector grew at 8.8 percent each year. In other words, relative to the manufacturing average, differential accumulation by Korean dominant capital has averaged 7.6 percent annually.

From the perspective of capital as power, it can be said that the differential power of Korean dominant capital to shape the process of social change grew at the rate of 7.6 percent per annum. In fact, this rate may well underestimate the pace of differential accumulation, since the financial data for the manufacturing sector provided by the Bank of Korea do not include small companies. For example, in 1996, 41,858 of the 86,444 companies registered at Revenue Korea, for which assets were less than 1 billion KRW, were excluded from the central bank's statistics on corporate finance. It also has to be mentioned that the analysis would have been much better if the financial data of not only the top three groups but also the 30 largest corporate groups had been available. There are only a few groups whose financial data before the 1980s are available. Despite this limit, the differential analysis of the top three groups' assets relative to the average of the manufacturing sector is meaningful on its own and provides a proxy for the differential practices of the 30 largest groups.

“Capital accumulation,” Nitzan and Bichler (2002: 46-7, original emphases) argue, “depends on two key conditions,” and “the absence of one or both of these conditions brings a threat of capitalist crisis.” The two conditions are as follows:

- (1) “A non-negative rate of differential accumulation by the ‘*dominant capital*’

group.”

(2) “A steady or rising capital share of income.”

Figure 3.10 seems to support this argument. It shows a positive correlation between the differential accumulation of dominant capital in terms of profit and the share of *capital in general* in national income (this, despite recurring crises, which are addressed in the next chapter).

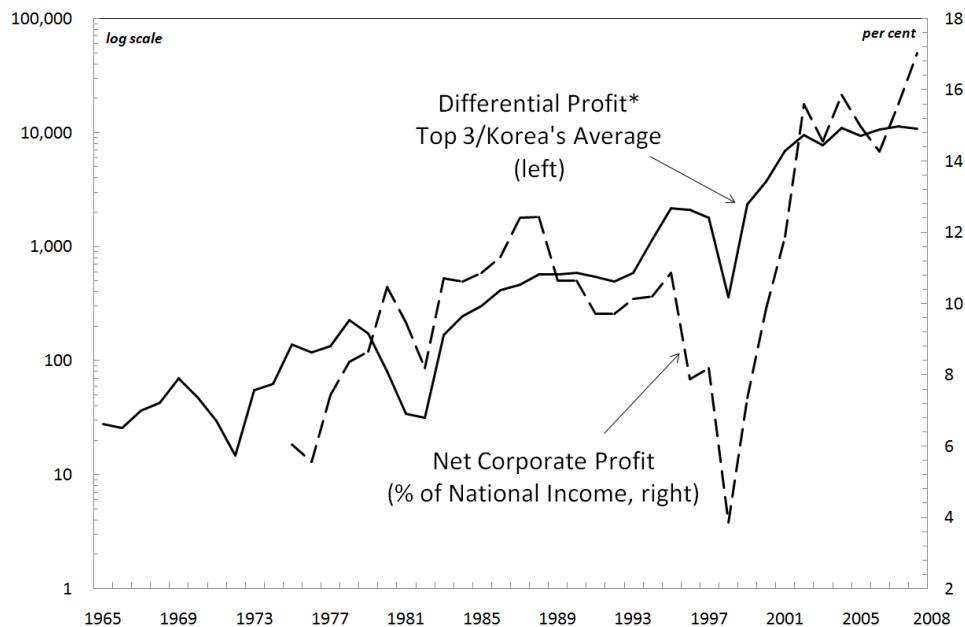


Figure 3.10 Differential Profits

*Ratio between the average net profit of the top three groups and the average net profit of all Korean corporations that are officially registered at the National Tax Service.

Note: Because LG and Hyundai Motor do not have consolidated data, the data for LG Electronics and Hyundai Motor are used instead. All series are expressed as three-year moving averages.

Sources: Samsung, 1998; LG Electronics, 2008; Hyundai Motor, 1992; KIS-VALUE for Samsung 1998-2008 and Hyundai Motor 1992-2008; National Tax Service for average corporate profit; Bank of Korea for the corporate share of national income.

The ratio of the average profit of the top three business groups to that of all firms increased from 28 in 1965 to 10,792 in 2008. In other words, the differential profit of Korean dominant capital grew about 390 times over between 1965 and 2008. Capital's overall share of national income has also increased dramatically. In terms of

a five-year average, it rose from 7.2 percent in the late 1970s to 16 percent in the late 2000s.

From the perspective of capital as power, this positive association between the differential profit of dominant capital and the relative income share of all capital can be interpreted as the parallel development of capitalist sabotage in two different dimensions, *differential* and *universal*. The universal measure reflects the overall balance of power between capitalists and other social groups, while the differential measure implies the growing power of the leading capitalist groups within the business world (Nitzan and Bichler, 2002: 38).

Early in its development, Korean dominant capital seems to have expanded its power through an accumulation path that Nitzan and Bichler characterize as *external breadth*. An external-breadth regime occurs when dominant capital achieves “differential accumulation by building new capacity and hiring new employees faster than the average, so as to increase its market share” (ibid: 49). It seems to have been “rational” for the leading capitalist groups to choose external breadth at a time when more than 60 percent of the Korean population engaged in agriculture, mostly as small farmers and poor tenants. This demographic situation provided Korean capitalists with enormous room for green-field investment. And that strategy also fit the mindset of the military dictator, Jung-hee Park.

The dictator, who had served Japan as a military officer during the colonial era, regarded industrialization as part of his campaign for nationalism under the banner of modernization. In his view, the strategy of industrialization-nationalism-modernization would make his regime sustainable. The strategy was also driven by tension and competition with his counterpart in North Korea. The dictator’s personal mindset, along with the business strategy of Korean dominant capital, was embodied in the Five Years Economic Development Plans, a plan that underlay the external-breadth regime throughout the military dictatorship.

As the Five Year plans were consecutively implemented, employment in agriculture decreased dramatically while the urban population and employment in manufacturing increased rapidly. The urban population in 1961, when the military dictator came to power, accounted for only 27 percent of the total population. The figure was 70 percent in 1988, when the democratization process began. During the same period, employment in agriculture decreased from 60 percent to 20 percent of the total, while that in manufacturing increased from less than 8 percent to 28 percent.

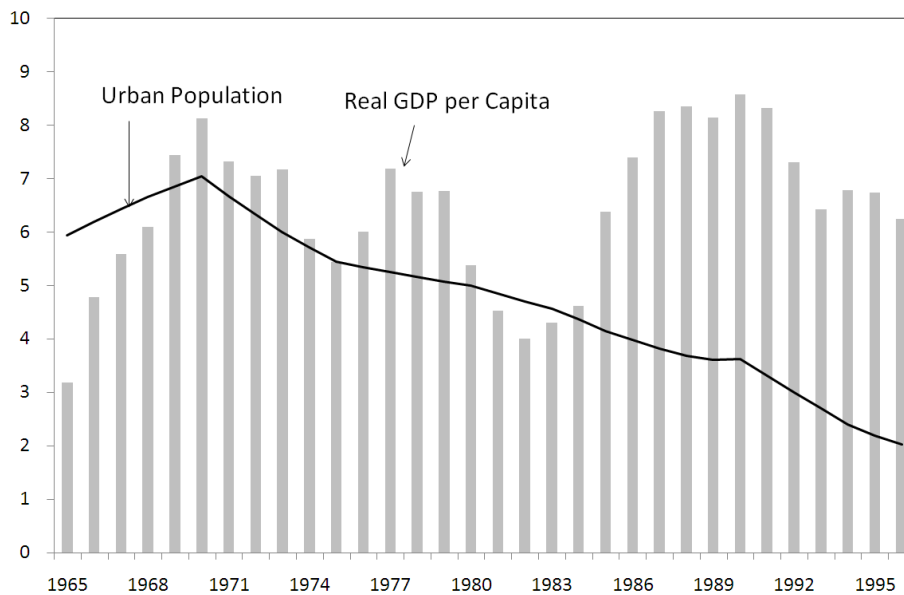


Figure 3.11 Korean Growth Trends (annual percent change)

Note: Series are expressed as five-year moving averages.

Source: World Development Indicators

The dramatic demographic changes led to rapid per-capita growth. As we can see from Figure 3.11, until the early 1980s the growth of the urban population was similar to and moved together with the growth of per-capita GDP (measured in constant prices). During the 1960s, the economy grew by over 8 percent annually, and during the 1970s by 7.3 percent; over the same periods, the annual growth of the urban population was 6.5 percent and 5.2 percent, respectively. This pattern suggests that the expansion of the Korean business universe relied greatly on the transfer of “surplus labour” from the primary sector to the secondary and tertiary sectors.

Moreover, Figure 3.12 illustrates the faster pace at which dominant capital increased the number of employees relative to the manufacturing average. From 1962 to 1979 (i.e. during the period of Jung-hee Park’s military regime), the average employment of dominant capital increased 20-fold, while the manufacturing average grew only threefold. Furthermore, this measurement significantly underestimates the differential employment of dominant capital. Note that firms with less than five employees are not included in the statistics on manufacturing employment. If employment data for firms with less than five employees were included in the comparison, the divergence between the average employment in the core and the manufacturing average would be even greater. In sum, we can conclude that the

expansion of the relative income share of Korean dominant capital (expressed by its share of total corporate profit), as well as the relative income share of capital in general (expressed as the share of corporate profit in national income) was driven largely by external breadth.

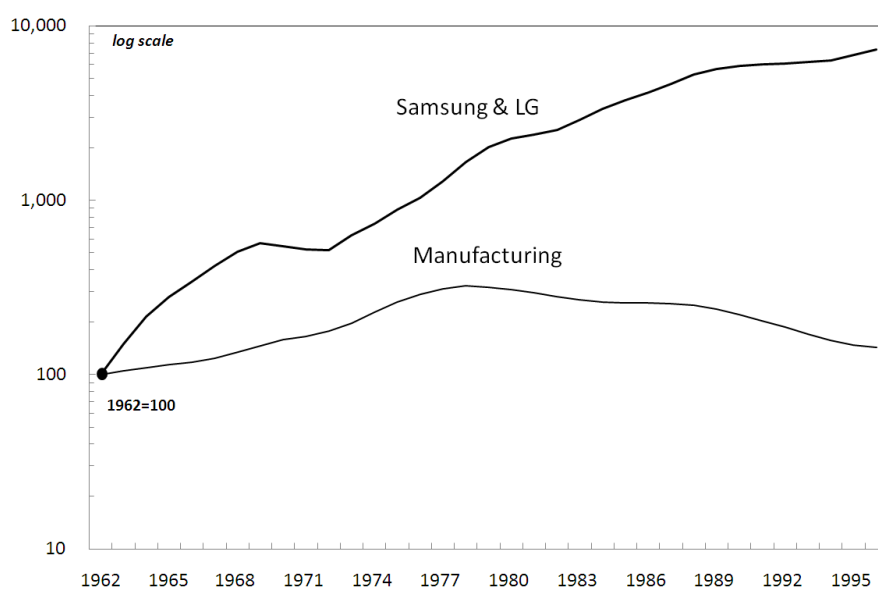


Figure 3.12 Average Number of Employees in Korea (rebased 1962=100)

Note: Series are expressed as three-year moving averages. LG includes only LG Electronics and LG Chemical. The manufacturing sector is confined to companies with five or more employees.

Sources: Samsung, 1998; LG Electronics, 2008; LG Chemical, 1997; Statistics Korea for the manufacturing average.

Differential accumulation through external breadth in Korea during the abovementioned period coincided with a “great transformation” in social relations. While the demographic change of the agricultural sector meant the collapse of traditional class relations, the rapid increase of the urban population implied the emergence of a new ruling class along with *proletarianization*. The massive influx of surplus labour into urban areas necessitated *qualitative changes* not only in the organization of production, but also in the distribution of ownership. Given that capital is a form of power, differential accumulation involves power struggles among many social groups to restructure society. In these power struggles, the oppressive

state played a central role: it quelled much of the opposition to social changes.¹⁴ One of the most important roles of the state was to ban basic labour rights. Korean workers were not allowed to unionize, bargain collectively, or take industrial action. Rather, labour unions were organized by the state as parts of the emerging megamachine,¹⁵ to put it in Louis Mumford's terms. In the beginning, Korean capitalists were unable to take the driver's seat of the machine. Yet, as commodification and capitalization increasingly permeated all levels of society, the key capitalists began their ascent to the leading role.

Foreign Capital

But the most important catalyst of the urbanization-driven breadth regime was foreign capital inflow. At the beginning, the state and the leading Korean capitalists could not finance the necessary green-field investment, and certainly not on their own. As already mentioned, after the Korean War, the reconstruction process depended heavily upon international aid, especially from the US. This reliance on foreign capital continued with the military regime.

During the first half of the 1960s, official economic aid accounted for roughly 50 percent of Gross Domestic Investment (see Figure 3.13). The dependency on aid was gradually reduced, and was subsequently replaced by foreign loans consisting of public loans and state-guaranteed commercial loans. During 1966-1975, the period of the second and third Five Year Economic Plans, foreign loans accounted for an average of 23 percent of GDI. Later on, as gross domestic savings rates increased, the relative importance of foreign loans for financing GDI gradually decreased.

Korea's capitalist trajectory was affected greatly by the Cold War. Unlike many Latin American countries, Korea is poor in natural resources. But as it turned out, it had an important geopolitical resource: its position in the region. This position was deemed crucial by the US, and that importance in turn brought a flood of foreign

¹⁴For example, there was a state-organized modernization campaign named the Saemaoul Movement, which literally means "a campaign for a new village." In this campaign, the authoritarian state mobilized Koreans, using both persuasion and violence, to destroy all traditional thatched houses and replace them with so-called modern houses. State officials took pride in this campaign, propagating a false image of welfare.

¹⁵In the wake of the Korean War, the militant labour movement was totally destroyed. Only right-wing labour unions were able to survive. These unions did not try to defend the interests of labour at all but to propagate the ruling ideology. For example, the Korean Confederation of Labour Unions was amalgamated into the ruling Liberal Party in 1955; later, under the military dictatorship, it was reorganized by the Korea Central Intelligence Agency (H. G. Koo, 2002: 52-4).

aid and loans. It was very significant for the US in its confrontation with the USSR to establish a firm security alliance in East Asia that would incorporate Japan and South Korea. The US took part in the Korean War, sacrificing about 40,000 soldiers. In the wake of that war, it kept providing not only military assistance but also economic support to the Korean government.

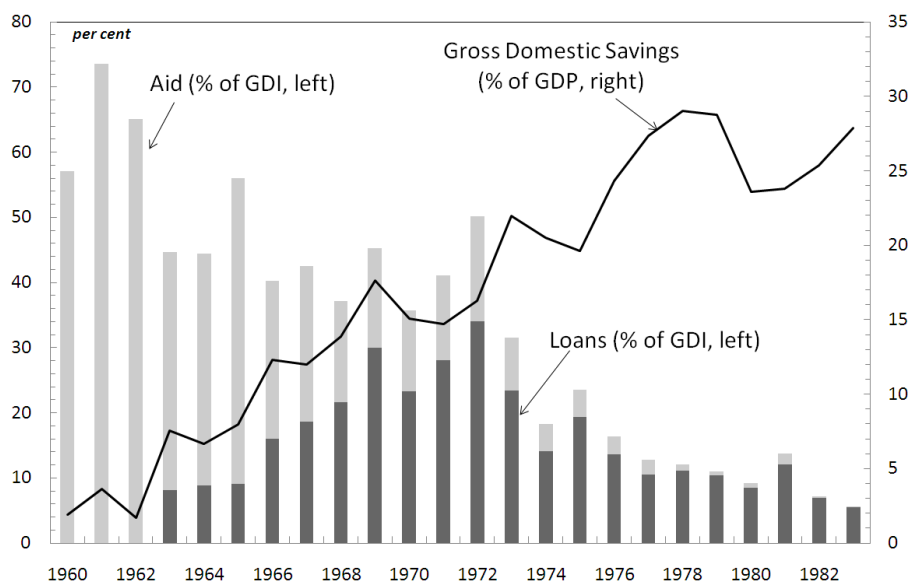


Figure 3.13 Foreign Capital Inflows and Domestic Savings

Note: “GDI” stands for “Gross Domestic Investment,” which is also called “Gross Capital Formation.”

Sources: World Development Indicators for GDI and GDS; *Korea Statistical Yearbook* (each year) for foreign aid and loans.

It also helped keep the Korean dictator in power by giving his government political and diplomatic support. For example, the US played an important role in restoring Korea’s relationship with Japan (S. G. Park, 1998: 50). The Korean government received about \$1 billion from the Japanese government in reparations for Japanese colonial rule. Part of the money was embezzled by the ruling party and spent on “political activities”; the rest of it was spent building industrial facilities like Posco, which has become one of the world’s largest steelmakers. The restored diplomatic relationship with Japan enabled Korea to develop an export-oriented industrialization strategy characterized by triangular trade: capital goods were imported from Japan, Korean capitalists used these capital goods to assemble or manufacture consumer goods, and the finished goods were exported to the US market.

This triangular trade enabled Korea to achieve rapid growth in exports, which, in turn, boosted the economy as a whole. The ratio of export to GDP had grown from 3 percent in 1960, to 40 percent in 1987 (World Development Indicators). Figure 3.14 shows that, between 1971 and 1987, the total amount of exports expanded by a factor of 37. Yet these amazing growth rates of total exports are dwarfed by the performance of dominant capital. As illustrated in Figure 3.14, during the same period, the exports of the Samsung and LG Groups rose by a factor of 1,065. The state's export-oriented policies were applied in a highly differential manner, and that differential application boosted the fortunes of dominant capital relative to the average. For example, differential export subsidies, based on a dual exchange rate, made dominant capital—but not lesser capitals—price competitive in international markets. Government subsidies to exporting companies accounted for 58.7 percent of every dollar earned abroad in 1963; 23.4 percent in 1965; 37.9 percent in 1970; 31.4 percent in 1975 (I. J. Seo, 2003: 88). On top of these subsidies, exporting firms were also subsidized with a tax reduction on every dollar earned abroad.

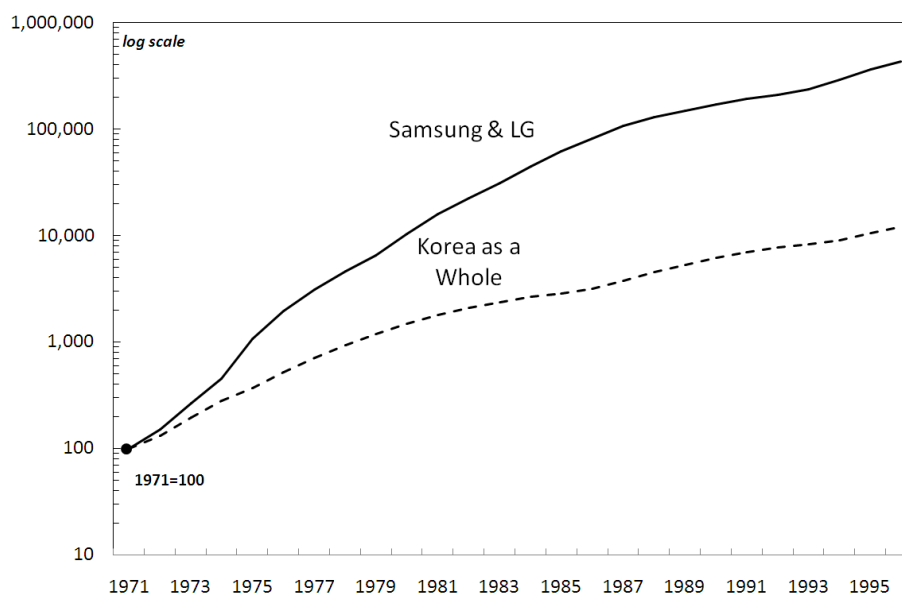


Figure 3.14 The Evolution of Exports (current \$US, rebased 1971=100)

Note: Series are expressed as five-year moving averages.

Sources: Samsung, 1998; LG, 1997; World Development Indicators for Korea's exports.

The political economic relationship between Korea and the US was further consolidated during the second half of the 1960s, when the US called for Korea's

participation in the Vietnam War. Between 1964 and 1973, Korea sent 320,000 soldiers to Vietnam. In return, the Korean government was rewarded not only with military aid, but also with business opportunities: (a) the US Armed Forces began to buy supplies in Korea, (b) Korean companies started to supply military hardware for US as well as Korean military forces in Vietnam, and (c) Korean firms were entitled to bid for US-funded construction contracts in Vietnam. All in all, between 1965 and 1972, Korean nationals earned about \$1 billion from the Vietnam War (S. J. Jeong, 2005: 113).

Table 3.8 The Financial Role of the Vietnam War (Unit: Percent)

	1966	1967	1968	1969	1970	1971	1972
Remittances from Vietnam / Korean Exports	24.4	47.3	37	32.2	24.5	12.5	5.1
US Military Aid / Korean Government Budget	40.4	40.3	41.8	39.4	23.7	38	30.3
US Military Aid / Korean Military Budget	140	147	169	173	102	154	122

Source: S. J. Jung, 2005: 114-5.

Table 3.8 shows the importance of the Vietnam War for the Korean political economy. From 1966 to 1972, remittances from Vietnam accounted for an average of 26 percent of Korea's total exports. For the Korean government, which had been very keen to accumulate US dollars, the Vietnam War was a bonanza. Over the same period, US military aid to Korea amounted on average to 36 percent of the Korean government budget. As we can see in Table 3.8, this aid was greater than Korea's total military budget.

US aid after the Korean War was not distributed equally to all Koreans, and the same applies to financial flows from the Vietnam War. The precise allocation of these flows is difficult to determine, but we do know that the Vietnam War enabled some Korean companies to become *chaebols*. One of the best examples is the Hanjin Group, which currently owns Korean Air. Hanjin signed a contract with the US Department of Defence to transport military supplies for its armed forces in Vietnam. From 1966 to 1971, the group earned about \$150 million from this business (H. G. Lee, 1999:

161), which amounted to 15 percent of the *total* sum of money that Korea earned in the Vietnam War, and it turned Hanjin into a *chaebol*.

Establishing Differential Capitalization as the Pattern of Social Order

The early phase of Korea's capitalist development was dominated by an authoritarian regime ruled by the state apparatus. The financial sector was almost completely under state control. Until 1993, when the Kim Young-Sam government liberalized the financial system, external finances relied entirely on state loans and guarantees. Domestic savings were also distributed by the state: most commercial banks had been nationalized in 1962. Development loans were allocated through the state-run Korea Development Bank. In addition, by imposing heavy levies on profits accrued to financial assets, the government tried to restrict private moneylenders' activities and channel capital from the financial sector to the industrial sector.

In the conventional literature, these characteristic features of Korean capitalism under the authoritarian regime are often amalgamated into the category of "financial repression" (C. G. Yoo, 2003). The government, argue the advocates of this concept, deliberately underdeveloped the private financial sector in order to promote industrial development. The most common example of financial repression under the dictatorship is Emergency Decree No. 15. The decree invalidated all loan contracts between firms and private moneylenders outside the public banking system. The state forced creditors to accept the restructuring of debt payments and interest. The interest that manufacturing companies owed to private moneylenders was reduced to a third of the original amount; the financial cost recorded in manufacturing income statements went down from 9.18 percent of sales revenues in 1971 to 5.69 percent in 1973 (G. H. Kim, 2008).

Yet the notion of "financial repression" is misleading. It assumes that, while financial firms accumulate "financial capital," industrial corporations accumulate non-financial or "real" capital. But according to Nitzan and Bichler (2009: 262, original emphasis), this view is incorrect. Capital, they argue, regardless of its sector, is "finance, and *only finance*." The notion of financial repression also obfuscates the nature of state "intervention" in the financial sector. The quintessential character of this intervention was the differential redistribution of social resources, and this redistribution was achieved through the sabotage of the dominant distributional

coalition. In my opinion, this was exactly what Emergency Decree No. 15 meant to achieve. While the state certainly violated the rules of the so-called free market, it did not break those of capitalism. If anything, the authoritarian state was part and parcel of a broader process that established the Korean capitalist social order. In that process, the state helped the leading Korean capitalist groups build their power base and eventually assume control over a system through which they could restrict others from accessing social resources and quantify this power as pecuniary value.

As noted above, Korea's rapid capitalist development under the military dictatorship is characterized by the positive association between the differential profits of dominant capital and capital's overall share of national income. This process of capital accumulation represents more than "business performance." It reflects and incorporates the whole gamut of organized power relations. Indeed, as this chapter amply illustrates, it is not easy to find any policy implemented by the authoritarian regime that did not have an impact on this capitalization. The distribution of international aid and loans and the comprehensive packages of developmental policies had resulted in differential capitalization. Furthermore, the differential gains of dominant capital involved the extortion of compensation for the 36 years of colonial rule, the sacrifices of the underlying population through political suppression, and geopolitics accompanied by wars and massacres.

Of course, these qualitative aspects of power cannot be "translated" into quantitative accumulation in a deterministic way. Even the abovementioned industrial policies, which seem to be directly related to business performance, do not tell us how much they contributed to the accumulation of dominant capital. Nevertheless, the Korean capitalist ruling class, like its counterparts elsewhere, was gradually habituated to quantifying social relations through differential capitalization. And they developed organizations, institutions, and legal arrangements that went hand in hand with this quantification of power. Therefore, it is essential for any researcher concerned with power to try to build a bridge between the quantitative and qualitative processes of power, even if this "link" is always circumstantial.

Korea had been under an "iron fist" for so long that few have paid attention to the emergence of capitalist power. The state, no matter how strong, was not independent of social relations. And in Korea, as elsewhere, its authoritarian regime provided a cocoon within which capitalist organizations, business infrastructure, and the overall pattern of capitalist power were allowed to develop. In parallel, the progressive capitalization of power gradually transformed the very nature of the state.

The differential capitalization of the social process became more and more pervasive under the authoritarian regime. Seen in this light, the arrival of neo-liberalism in the 1990s no longer appears as a sudden structural break, but rather as part and parcel of the long emergence of Korea's capitalist mode of power.

Power has meaning only when it is exerted against resistance, and resistance often leads to crises. And indeed, the century-long evolution of Korean dominant capital from its shabby beginning to its current command faced several severe crises. The next chapter deals with these crises, focusing on the 1987 and 1997 crises.

The 1997 Crisis and the Restructuring of Power

This chapter examines the causes of the Korean economic crisis of 1997, which was a part of the broader economic crisis in South-East Asia. The chapter examines these causes in terms of *regimes of differential capital accumulation*. As such, it is intended not to give a causal analysis of the crisis in a deterministic way, but to cast a different light on the issue. In contrast to the conventional wisdom, which tries to find root causes in a sort of Minsky moment or conspiracy, this chapter attempts to situate our understanding of the 1997 crisis within the context of power restructuring, global as well as domestic, which is financially represented by the transformation of the regime of differential capital accumulation.

Over the past 25 years, South Korea has undergone rapid social change. Perhaps the two most significant and symbolic aspects of this change were the popular uprising in 1987 and the socio-economic crisis of 1997. The two conjunctures marked the culmination of struggles between various social forces, and both conjunctures, in turn, acted as catalysts for restructuring the mode of power in Korea. Yet the direction of reform set by the two events was markedly different. In 1987, South Koreans, undermining the power of the Korean ruling classes and opening up the possibility of a new and better society, gained confidence in the people's power. Even though the military dictatorship was not replaced by a revolutionary government, it seemed that no one could stop the democratic reform initiated by the popular uprising. By contrast, in 1997 Koreans felt helpless against the socio-economic turmoil and the terrible suffering it brought; they were powerless to stop the so-called neo-liberal shock therapy that came in the aftermath of the crisis and which was characterized by a massive upward redistribution of wealth and power.

There are still many unanswered questions around these two social events. Why did the military elites not brutally suppress the protests in 1987 as they had done in 1980? How did Korea's economy, the fundamentals of which appeared to be sound, all of a sudden fall into crisis in 1997? How is the "political" crisis (for the ruling class) of 1987 connected to the "economic" crisis of 1997? To what extent were the two social events related to neo-liberal globalization?

The focus of this chapter is the period between the mid-1980s and the late 1990s, and its main purpose is to grasp the nature of the social change during that period. The thrust of my argument in this chapter is threefold. First, I argue that the abovementioned two social conjunctures should be understood as part of the evolution of Korea's capitalist power. Second, this social change is to be situated in the context of a broader, global transformation of the world order. And third, the kernel of this transition, globally as well as domestically, was the changing nature of capital accumulation.

The ten-year period between the 1987 popular uprising and the 1997 economic crisis, whether by accident or by necessity, roughly coincided with the transition from the Cold War to the era of globalization. This parallel development suggests that, to some extent, the structural crisis of South Korea might have been part and parcel of a broader change in the global order as a whole. Since the mid-1980s, the Korean ruling class had faced internal and external pressure at the same time. Domestically, it faced strong resistance from below: an ever-growing number of Koreans, losing their patience with the military regime, joined street protests organized by university students. The situation was out of control, leaving military elites with no choice but to either violently quell the unrest or give in to demands for democratization. Internationally, the Korean ruling class was also pressured to make structural adjustments to the Korean political economy to make it compatible with the principles of neo-liberalism. As, following the collapse of the Communist bloc, the global focus of differential accumulation shifted from depth to breadth (Nitzan and Bichler, 1999), South Korea could not keep enjoying the benefits of protectionism that had existed during the Cold War. Rather, the country became one of the main targets for the expansion of global dominant capital.

Initially, this domestic and global conjuncture appeared to have afflicted Korean capitalists. Previously, having enjoyed the full support of the authoritarian governments, they did not have to be nervous about the labour movement or the competition of foreign capital. In the post-1987 era, though, strong demands for wage

increases by well-organized labour unions, coupled with external pressure for liberalization, put Korean capitalists under immense pressure. In order to survive, they had little choice but to come up with a new mode of capital accumulation.

However, Korean capital was not simply responding passively to changing circumstances. In many ways, it was also trying to use the changing circumstances in order to shape the transition of Korean capitalism. Indeed, at least with hindsight, it can be said that democratization and globalization provided good opportunities for Korean capital, especially dominant capital. Whereas democratization helped Korea's dominant-capital groups shed off the shell of the "state cocoon," globalization enabled them to break the domestic "envelope," a national boundary that had protected Korean capital but had, by the early 1990s, become a fetter on their further expansion. To put it differently, Korea's dominant-capital groups had grown too big to be contained within their original state cocoon; after years of intensified concentration and centralization, the accumulation universe within Korea was exhausted. The only way for them to continue differential accumulation was by moving into a larger business universe.

This chapter tries to place accumulation at the centre of analysis. In so doing, I do not mean to offer a monocausal explanation for social transformation. Social change is always a complex and multi-dimensional process that simultaneously involves technological, industrial, institutional, political, cultural, and many other developments. Obviously, the social change that Koreans have experienced over the past 25 years has involved all these aspects. Yet I think that the various factors and facets of this change can be understood better in the context of accumulation. As the financial representation of social power, the accumulation of capital shapes the boundaries of social change. Especially when the focus of global differential accumulation shifts, the limits of the possible for small countries such as Korea, due to their political economic dependency on the core, tend to be reset. Unless it is centred on the accumulation of capital, no analysis of the transformation of Korean society since the mid-1980s can grasp its nature.

The present chapter tries to build a bridge, tentative but nonetheless meaningful, between the qualitative and quantitative processes of accumulation: it tries to link changes in the social conditions of power with changes in differential accumulation. The analysis starts with the 1997 crisis. As mentioned in the previous chapter, the qualitative aspects of power cannot be translated into quantitative accumulation in a deterministic way. The way to understand the link between the two processes is to

move from “observing the numerical ups and downs of differential accumulation, to speculating about their social causes” (Nitzan and Bichler, 2002: 39). Thus, after situating our understanding of the crisis within the framework of differential accumulation, the chapter describes the inter- and intra-class struggles in Korea around the abovementioned two events; it also addresses the institutional reforms of Korea’s political economy. The chapter focuses on the way in which Korea’s dominant capital has strengthened its power over the social processes of production and reproduction.

Revisiting the 1997 Crisis

The crisis was, in many respects, one of the most important watersheds in Korea’s modern history. Wreaking havoc on Korea’s political economy, it panicked the entire population. Koreans understand the crisis as the worst social disaster since the Korean War. As a consequence of the crisis, hundreds of thousands businesses, including many *chaebols*, went bankrupt; virtually all banks were bailed out; about one million workers lost their jobs. What is worse, the Korean government was forced to accept the IMF’s restructuring programs as a precondition for the latter’s financial bailout package. This precondition, evoking the collective memory of Japan’s colonial rule, seriously hurt Koreans’ pride. Many Koreans regarded IMF patronage as “imperial” intervention. The impact of the 1997 crisis on Korean society was so severe that the political economic system before and after the crisis could not be the same.

The severity of the crisis and the depth of the social change that followed attracted attention from both policymakers and academic analysts around the world. As with controversies over Korea’s “economic miracle,” most analyses of the crisis coalesced around two rival stories. One was the market-fundamentalist view, which maintained that the crisis was a result of the inherent limits to crony capitalism and over-regulation. The other was the statist view, according to which the crisis resulted from under-regulation. In other words, according to the statist view the crisis was caused by neo-liberalism, which had increasingly permeated Korea’s political economy since the turn of the 1990s.

These two approaches remind us of the story of the Blind Men and an Elephant.¹ In my view, the market fundamentalists and statisticians were caught up in their own biases; each touched only one part of a complex social process while remaining blind to the other parts. In order to get the whole picture, their analyses not only need to be joined, but must also be situated in the broader context of the transformation of capitalist power. So let's delve into the details, starting by looking at several economic indicators.

The Calm Before the Storm

To the best of my knowledge, no one anticipated the 1997 Korean crisis. There had not been any indication of a serious problem, at least in terms of the so-called fundamentals of the Korean economy.

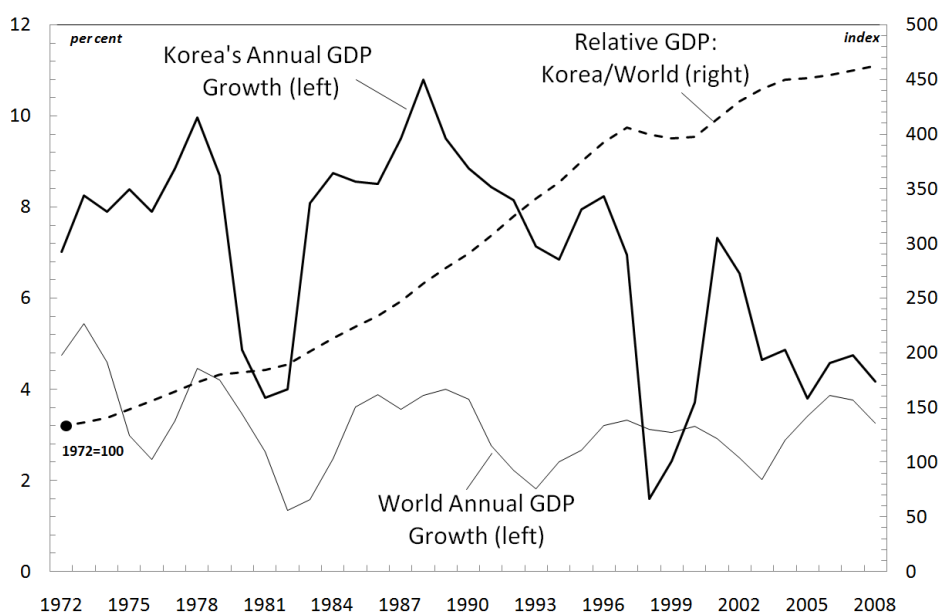


Figure 4.1 Real GDP Growth (constant 2005 \$US)

Note: Series are expressed as three-year moving averages.

Source: World Development Indicators

¹The story of the Blind Men and the Elephant is widely believed to have originated in Hindu lore. In the story, six blind men are touching the elephant so as to figure out what it is. Even though they touch the same animal, their descriptions of it are in complete disagreement. Because each man feels a different part, he can only achieve a partial understanding of the whole elephant. Moreover, their disagreement as to what it is they are touching is partly also due to their diverse preconceptions and notions.

As we can see from Figure 4.1, Korea's GDP growth had been strong until shortly before the crisis. During the previous decade (i.e. 1987-1996), growth had averaged 8.4 percent per year, almost three times higher than the world average (3 percent per year). As a result, Korea's share of world GDP rose by 60 percent in this period. Furthermore, exports kept increasing at an average growth rate of 16 percent per year over the same period (World Development Indicators). Neither inflation nor unemployment showed any sign of instability (see Figure 4.2). This strong performance of the Korean economy mesmerized policymakers around world. The World Bank chanted "learn from Korea" in its 1993 annual report, which was titled *The East Asian Miracle*.

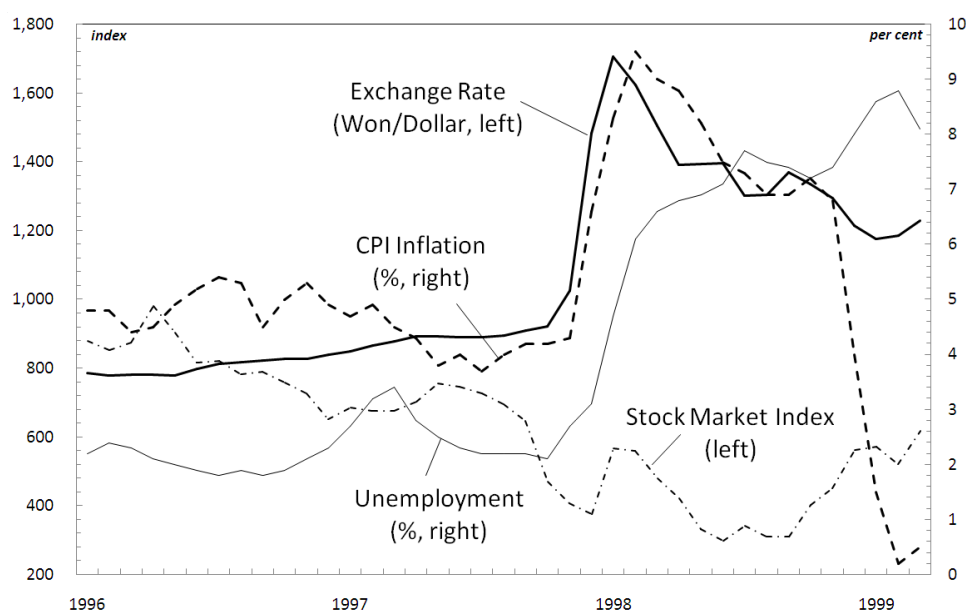


Figure 4.2 Shock Waves of Currency Instability

Note: All charts are based on monthly data series. "Inflation" refers to the year-on-year percent change of CPI.

Sources: Statistics Korea for unemployment; Bank of Korea for the rest of the data.

All of a sudden, an economic convulsion ambushed the promising Korean economy in the last quarter of 1997, causing Korea's worst recession since the Korean War. The entire "Korea, Inc." tanked. The chain reaction of the tremendous financial crisis began in the foreign-exchange market. The Korean currency, the won, was devaluated from 920 KRW per US dollar in October 1997 to 1,450 KRW in December (see Figure 4.2). In January, the won/dollar exchange rate increased further to 1,700 KRW

per dollar, increasing by 85 percent in three months. The sharp depreciation of the won was coupled with the 61 percent plummet of the Korean stock exchange index, falling from 757 in May 1997 to 298 in June 1998. During this period, the stock market lost more than half its market value: it decreased from 137 trillion KRW to 61 trillion KRW.

This rapid destabilization of the Korean currency and stock markets was part of a broader financial crisis that gripped much of South-East Asia. The crisis started in Thailand in July 1997 with the collapse of the Thai baht. Ironically, as foreign investors, fretting about financial contagion, refused to roll over South-East Asian countries' foreign loans, the crisis became more contagious. Korea, which was initially believed by most economic experts to be outside the area of the crisis' influence, was engulfed in the financial tsunami.

In the aftermath of the crisis, unemployment rose from 2.1 percent in October 1997 to 8 percent at the end of 1998, and it reached the peak of approximately 9 percent in February 1999 (see Figure 4.2). During the period from November 1997 to March 1999, 1.3 million Koreans were laid off as a part of a restructuring program or lost their jobs because their workplaces went bankrupt (Statistics Korea). Inflation also accelerated.

Two Rival Mainstream Analyses

The apparent soundness of Korea's economic fundamentals before the crisis, which to some degree distinguished Korea from Thailand and Indonesia, made Korea the centre of controversy over the cause of the Asian economic crisis. As is discussed in more detail below, statist and market fundamentalists led the controversy. In a nutshell, the former argued that the deregulation of the Korean market caused the crisis; the latter held that the root of the problem lay in Korean cronyism and corruption. The differences between these two rival analyses widened in the second round of their debates, which revolved around whether or not the IMF's involvement and policies in the crisis were appropriate. Needless to say, it was the leading figures of the IMF, such as Stanley Fischer and Michel Camdessus, who strongly held the market-fundamentalist view with full support from Greenspan of the US Federal Reserve. The critics of this camp, in contrast, assumed a type of "popular front" that consisted of various economic schools, including some neo-classical economists—i.e. converts such as Joseph Stiglitz (see 1999) and Martin Feldstein (see 1998).

The anti-IMF group generally argued that the Korean economic crisis was primarily caused by a “temporary liquidity problem” created by the rapid build-up of short-term external debt. This situation was caused by “ill-managed financial liberalization, abandonment of investment coordination, and poor exchange rate management” (H. J. Chang, 1998). The anti-IMF group held that, given its sound macroeconomic fundamentals, Korea was by no means insolvent. However, as foreign investors’ confidence, due to the “contagion effect,” collapsed in South-East Asia as a whole, Korea failed to lengthen the maturity of its short-term debts. The currency crisis ensued, and Korea was eventually forced to ask the IMF to bail it out. Yet the IMF abused its power and did more harm than good in handling the situation. It would have been enough for the IMF to “provide its technical advice” and help Korea to “persuade foreign creditors to continue to lend by rolling over existing loans as they came due” (Feldstein, 1998). Instead, the IMF tried to make use of the desperate situation to “open the way for a properly modern (read Anglo-American) free market system” in the region by requiring structural change as a precondition for its bailout program (Wade, 1998). Furthermore, the situation was aggravated by the short-term policies that the IMF prescribed for Korea, including reduced budget deficits, higher interest rates, and tighter credit. The anti-IMF group argued that these measures exacerbated the liquidity problem and thereby made more companies go bankrupt. The prescription made the patient more ill without curing the disease.

IMF requirements consisted of three “financial sector restructuring” articles and five “other structural measures.”² The former were intended to loosen the Korean government’s grip on banks and non-bank financial institutions, especially the central bank. Other structural measures included trade liberalization, capital-account liberalization, changes to corporate governance and corporate structure, labour-market reform, and increased information transparency. As Wade (1998) argues, we can see that the measures were obviously designed to dismantle the so-called “Asian Economic Model” (or “Japanese Model”) and replace it with a “pure” market economy. The manner in which the IMF imposed the restructuring measures reminds us of what Stephen Gill (1998) referred to as “disciplinary neo-liberalism.”

In defence of the IMF, Stanley Fischer (1998) asserted that “financial sector and other structural reforms are vital to the reform programs of Thailand, Indonesia, and South Korea because the problems of weak financial institutions, inadequate

²The IMF, “IMF Stand-By Arrangement: Summary of the Economic Program,” December 5, 1997. This document is available on the IMF website at <http://www.imf.org/external/np/oth/korea.htm>.

bank regulation and supervision, and the complicated and non-transparent relations among governments, banks, and corporations were central to the economic crisis.” The structural weakness in the financial and corporate sectors, brought about by a long history of market-distorting policies, triggered the financial and currency crises. Alan Greenspan (1998), the chairman of the US Federal Reserve Board at the time, also threw his weight behind the IMF: “Moreover, the policy conditionality associated principally with IMF lending... helps to mitigate some of the moral hazard.... Such conditionality is also critical to the success of the overall stabilization effort.” Therefore, for neo-liberals, the IMF’s requirements for structural changes were appropriate measures to root out the fundamental cause of the problem.

Both Right and Wrong

In my view, both market-fundamentalist and statist analyses of the 1997 crisis were right and wrong at the same time. Korea’s political economy, which was in transition during the 1990s, had the mixed aspects of “state capitalism” and “neo-liberal market capitalism.” As market fundamentalists argued, the unscrupulous relationships between bureaucrats and big businessmen played an important role in discouraging external moneylenders’ confidence, which, in turn, made those lenders reluctant to extend loans to Korea. This reluctance was an immediate cause of the 1997 crisis. For example, four of the 30 largest *chaebols*—Hanbo, Sammi, Jinro, and Kia—had gone bankrupt (or had entered insolvency procedures) in 1997, even before the collapse of the Thai baht. Despite the difficulty of singling out a main cause, the blame for the bankruptcies was laid mostly on cronyism, which had enabled Korea’s dominant capital to make huge debt-financed investments. Their “over-investment” (i.e. over-leveraged balance sheets) made not only themselves but also the Korean economy as a whole more vulnerable to external shock. Statists were also right in arguing that the liberalization and deregulation of Korea’s capital markets had resulted in an unstable external debt structure: the rapid build-up of short-term external debt had led to a credit crunch along with the currency crisis in 1997.

Note that both market fundamentalists and statist commonly claimed that the main culprit of the crisis was the rapid increase in external borrowing. While the pro-IMF group pointed its finger at the debt-equity ratio in the corporate sector that had resulted from cronyism and corruption, the anti-IMF group blamed the deregulation of financial control for the growing share of short-term debt. Indeed, as Figure 4.3

shows, Korea's rapid external-debt increase before the 1997 crisis was due to the growing share of short-term debt.

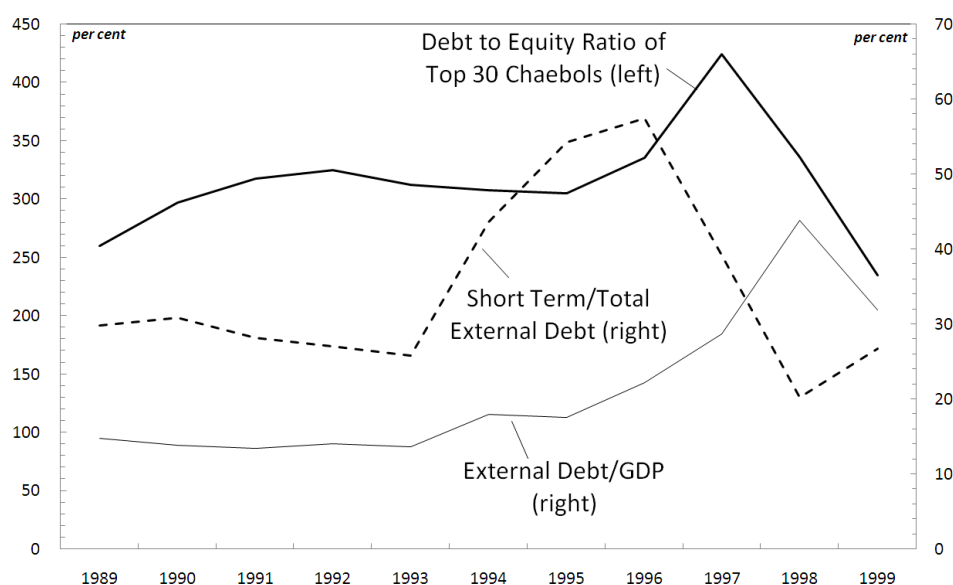


Figure 4.3 The Increase in Financial Vulnerability

Sources: Fair Trade Commission for the top 30 *chaebols*; World Development Indicators for the rest of the data.

This share increased from 25.8 percent in 1993 to 57.5 percent in 1996. The increase coincided with the hike of the debt-to-equity ratio in the private sector, especially for dominant capital. The debt-to-equity ratio of the top 30 *chaebols* escalated from 260 percent in 1989 to 425 percent in 1997. Whereas the high debt-to-equity ratio made major business groups more vulnerable to shocks to cash flow or the supply of capital, the growing share of short-term external debt made the Korean economy as a whole more sensitive to foreign investors' whims.

Although their arguments are partly anchored in facts, in my view the statist and the market fundamentalists both reveal only a superficial understanding of the crisis.

Firstly, being hostage to its own biases, each camp turned a blind eye to the other's empirical findings. This bias, in turn, led to both camps' partial understanding of the complex situation. Like the men in the story of the Blind Men and an Elephant, instead of trying to get the whole picture, both camps mistakenly believed that they were in complete disagreement. Consequently, the pro-IMF group, which touched only the internal cause of the crisis, diverted attention from the issue of neo-

liberalism. By contrast, the anti-IMF group, focusing on the external cause, ignored the role of cronyism (i.e. the traditional way of creating distributional coalitions) in making Korea's financial system more vulnerable to external shocks.

Secondly and more importantly, having focused too narrowly on apparent causes, both the anti- and pro-IMF groups neglected the broader, social transformation that I think underlay the 1997 crisis. The roots of this neglect can be found in the dichotomy between "politics" and "economics" that characterizes their approaches. This dichotomy prevented them from grasping the global and domestic socio-political contexts in which the understanding of both "deregulation" and "cronyism" should be situated. Neither the pro-IMF nor the anti-IMF group integrated the transition of the world order or the changing nature of the state and capital into its explanations of the crisis. Thus, the pro-IMF group could not explain why the Asian economic model, with its structural problems, had been so successful over the past thirty years. Until shortly before the crisis, the model had been praised highly and was almost unanimously conceived as a paragon by policymakers and economists around the world (see World Bank, 1993). How did the strength of the Asian economic model all of a sudden turn into its weakness? Similarly, the anti-IMF group, having imputed the cause of the crisis entirely to the whims of foreign investors, ignored the fact that it was the state that had led the liberalization and deregulation of the Korean economy. Without noticing that the very nature of the state itself had changed, the anti-IMF group kept eulogizing the "innate superiority" of the Asian economic model. Like the pro-IMF group, the anti-IMF group failed to understand that the huge success of this model in the past was possible only within the broader framework of a specific capitalist world order—the Cold War.

An Alternative Approach to the 1997 Crisis

Certainly, the growing over-leveraging of the Korean *chaebols* (supported by cronyism) and the massive growth of short-term external debts (made possible by deregulation) are two of the most important factors that led to the 1997 crisis. These measures suggest that Korea might have experienced a so-called Minsky moment. This phrase is known to be coined by Paul McCulley, an American economist who used to be a managing director at Pimco, to describe the 1998 Russian Financial Crisis (Lahart, 2007). "The Minsky moment" refers to the transition of a supposedly "stable" financial system to a highly "unstable" one after an extended period of

highly leveraged speculation in the market. Yet we do not know in advance the “critical point” of any indicator concerning financial risks beyond which an economic crisis may break out. Only with the benefit of hindsight can one say that the high debt-to-equity ratio in the Korean corporate sector and the rapid build-up of short-term external debts in the Korean economy created a situation very vulnerable to foreign-capital flight.

In my view, the debt-related economic instability of Korea’s political economy was, despite its importance, merely a partial reflection of a broader and deeper social change, a change that had been unfolding for quite some time inside and outside Korea. Any theoretical reconstruction of causality here has to be situated in the context of this change. Of the many factors and aspects of the change that Korean society had experienced around the 1997 crisis, three stand out in their importance: (1) the transition of the world order from the Cold War to globalization; (2) democratization; and (3) the negation of the “state cocoon” by the “capital larva.”

The 1997 Korean crisis was part of this global and domestic transformation. The crisis resulted from this rapid social restructuring and in turn accelerated the re-shaping of Korean society. While the “inevitability” of crisis can never be verified, it is safe to say that the crisis of 1997 marked a watershed in the evolution of the Korean capitalist mode of power. The political economic reforms before and after the crisis involved the rearrangement of various power institutions through which the ruling class attempted to strengthen its control over the social process of production and reproduction. Of course, the ruling class does not always succeed in its attempts. The process of social change involves dynamic power struggles—both inter- and intra-class struggles. The ruling class has to restructure society against opposition in order to expand its power. And, indeed, the 1997 crisis spelled trouble for Korea’s ruling capitalist class: virtually all *chaebols* would have gone bankrupt without bailouts. But in the end, it was the underlying population that bore the brunt of the crisis. Korean dominant capital, through the socialization of private debt, dumped its burden on the people. What is more, in the wake of the crisis, the social process has been increasingly commodified.

The abovementioned broad perspective serves to shed new light on the 1997 crisis. Specifically, it leads to two basic hypotheses about the causes of the crisis. The hypotheses are as follows. (1) The crisis was the culmination, however unexpected, of the structural adjustment made by Korea’s dominant capital to democratization and globalization. This political economic restructuring was inevitable as Korea’s

dominant capital reached its “envelope” (that is, the boundaries of its corporate universe). Therefore, (2) analyses of the accumulation of Korea’s dominant capital may offer a better understanding of the crisis. That is to say, an empirical study of differential accumulation may reveal the underlying cause of the 1997 crisis to be something other than the moral hazard of Korean capitalists or the whims of foreign investors. Let us now turn to examine these hypotheses more closely.

Differential Accumulation in Korea

In the mid-1980s, Korea’s leading capitalists faced a critical crossroads. Although they had experienced crises several times before, the crisis this time was different. Two main pillars of their power were badly shaken. As explained in the previous chapter, the differential accumulation of Korea’s dominant capital in the postwar era relied heavily on the authoritarian regime and the broader geopolitics of the Cold War. By the mid-1980s, these circumstances were about to change. Internally, Korea’s ruling classes had to accommodate growing demands for democracy. Externally, they were pressured to restructure the Korean political economy to make it compatible with the neo-liberal globalization that was replacing the Cold War world order. Unless Korea’s ruling classes wanted Korea to be a closed political economy like Burma or North Korea, a “radical” rearrangement of power institutions seemed inevitable.

Furthermore, apart from the domestic and global pressure, Korea’s dominant capital had its own reasons for restructuring power relations. Firstly, the *chaebols*, which had grown under the state’s protection, had become mature enough to “hatch.” Leading capitalist groups, which felt increasingly uncomfortable with the state’s intervention, required greater autonomy. Secondly, Korea’s dominant capital, reaching the boundaries of its domestic corporate universe, began to change its business benchmark. Along with the external pressure to globalize Korean society, the *chaebols*, in order to expand their power, needed to break the national envelope and move into a broader business world. They also began to see the world-leading (Japanese) manufacturers such as Toyota, Mitsubishi, and Sony as their competitors. Until then, these Japanese manufacturers had been conceived as the drivers of the flying-geese development model that they had to follow.

The Limits of External Breadth

Since the end of the Korean War, and especially from the Five Years' Economic Plan initiated by the military regime in 1962, Korea has seen the emergence and development of large dominant-capital groups, the *chaebols*. By the early 1980s, even the authoritarian state began to worry about the social impact of these over-grown business groups, for it had to consider Korean people's growing antipathy towards the *chaebols*. The government made attempts to regulate their further expansion. By enacting the Monopoly Regulation and Fair Trade Act (in 1980) and by establishing the Fair Trade Commission (in 1981), the government tried to "restrain the concentration and centralization of economic power" (Fair Trade Commission, 1991). The common wisdom that the 30 largest *chaebols* constitute the dominant business groups in Korea originated from the list of conglomerates supervised by the Fair Trade Commission during the 1980s.

As discussed in the previous chapter, Korea's dominant capital adopted an external-breadth regime for the expansion of its power since the early 1960s. As discussed in the previous chapter, "external breadth" refers to the regime of differential accumulation that can be achieved when dominant capital builds new capacity and hires new employees faster than the average. At the time, conditions for external breadth were ripe. Korea was one of the least industrialized economies in the world; there were ample resources of surplus labour in the countryside; and, taking advantage of the Cold War geopolitics, Korea's ruling class could attract significant foreign capital for green-field investment. Indeed, leading capitalist groups succeeded in simultaneously increasing the overall size of the pie and their share of it. By the end of the 1980s, Korea became the fifteenth-largest economy in the world (in terms of GDP³); about 45 percent of its total corporate assets (in terms of book value) were in the hands of the 30 largest *chaebols*.⁴

However, external breadth cannot last forever. It has innate limits. An external-breadth regime can be sustainable only as long as significant portions of the population are yet to be proletarianized. Moreover, "green-field growth," when it

³In 1990, Korea ranked fourteenth in terms of nominal GDP and fifteenth in terms of GDP measured in PPP (World Development Indicators).

⁴This number is calculated from the data given by the Bank of Korea and the Fair Trade Commission. The data for total corporate assets, which are offered by the Bank of Korea, are estimations based on sample surveys.

goes beyond a certain level, “creates a downward pressure on prices and profit per employee” (Nitzan and Bichler, 2002: 50).

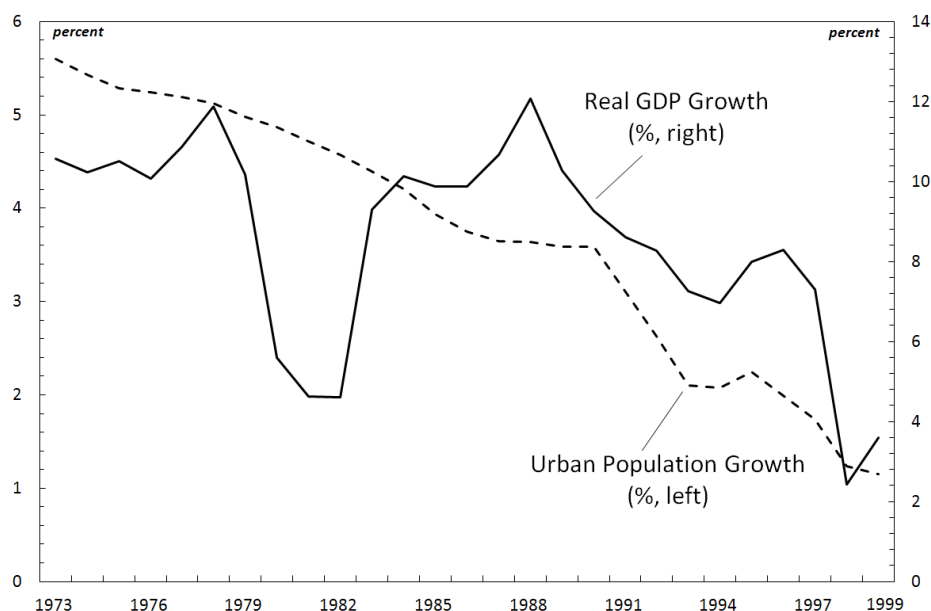


Figure 4.4 The Limits of External Breadth

Note: All series are expressed as three-year moving averages.

Sources: Bank of Korea for GDP growth; World Development Indicators for urban population growth.

As we can see from Figure 4.4, at the end of the 1980s the external-breadth regime pursued by the Korean corporate-government coalition seems to have reached its limits. The chart shows two different series: urban population growth and real GDP growth—each of which is expressed as a three-year moving average. The chart shows that, as the pace of proletarianization (measured by urban population growth) was losing momentum, the overall expansion of the Korean economy (or real GDP growth) was declining. The annual growth of the urban population in 1997, when the crisis broke out, was 1.7 percent, less than half the 1987 pace of 3.6 percent; a third of the 1977 pace of 5.2 percent.

This slowdown of the population influx into cities is not surprising. Korean urbanization, which is measured here by the ratio of the urban population to the total population, surpassed the average of the high-income OECD countries in the 1990s. During the period of 1991-2000, Korea’s average urbanization was 77.7 percent,

while the average for the high-income OECD countries was 74.5 percent (see Table 4.1).

Table 4.1 Urbanization and Population-growth Rates (decade average, percent)

Periods	Population Growth		Urbanization	
	Nationwide	Urban	Korea	OECD
1961-1970	2.5	6.5	34.0	64.7
1971-1980	1.8	5.2	49.2	69.2
1981-1990	1.2	3.9	65.9	71.9
1991-2000	0.9	1.7	77.7	74.5
2001-2008	0.4	0.7	80.7	76.5

Source: World Development Indicators

Korean society, which was one of the least developed countries in the early 1960s, now has to worry about over-urbanization and rural “hollowization.” As the main driver of the early breadth boom dried up at the turn of the 1990s, GDP growth became sluggish. According to Figure 4.4, after reaching a peak of 12.1 percent in 1988, it gradually and steadily decreased to 7.3 percent in 1997.

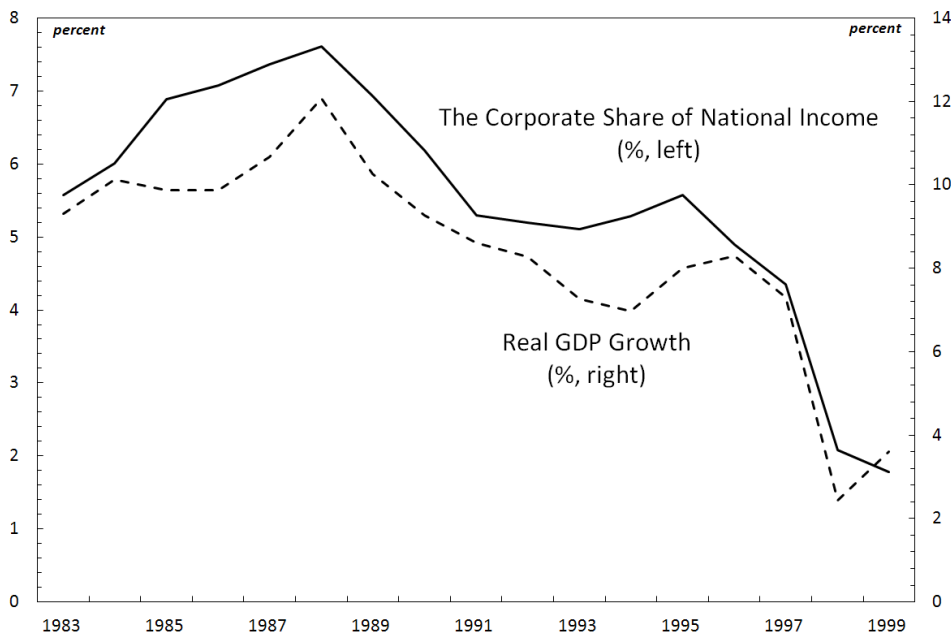


Figure 4.5 The Declining Corporate Share of National Income

Note: All series are expressed as three-year moving averages.

Source: Bank of Korea.

The deceleration of Korea's urban-population increase and overall economic growth led to a decline in the corporate share of national income. As we can see from Figure 4.5, net corporate profit as a share of national income, moving in tandem with GDP growth, had been on a downtrend since the end of the 1980s. *Capital in general* accounted for 7.6 percent of national income in 1988. By 1997, it had decreased to 4.3 percent, and in the aftermath of the crisis, it fell further to a record low of 1.8 percent.

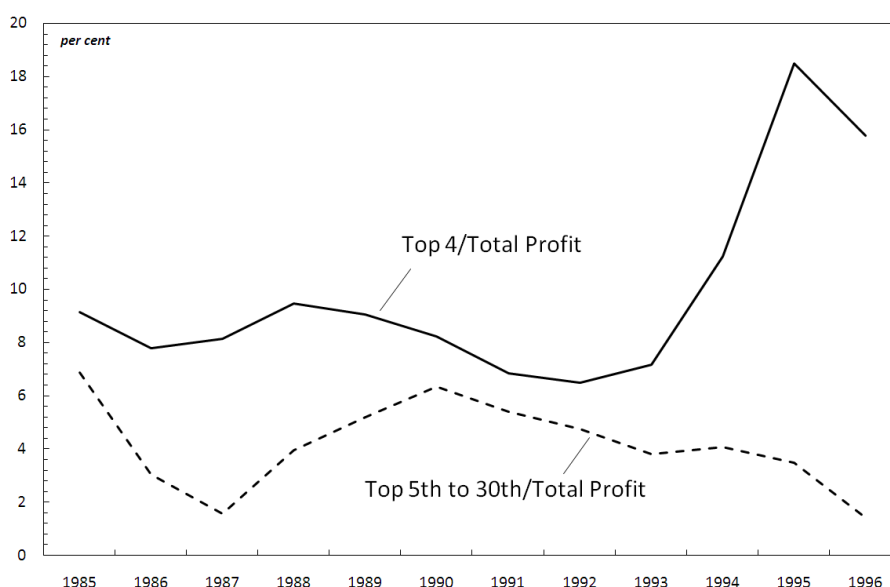


Figure 4.6 Korea's Dominant Capital in Difficulty

Note: All series are expressed as three-year moving averages and rebased to 1985=100. Total net profit refers to the sum of the annual gains and losses of corporations officially registered at the National Tax Service as limited-liability companies.

Sources: Fair Trade Commission for the *chaebols'* profits; National Tax Service for total corporate profits.

As the initial impetus for the overall expansion of the pie was weakened, Korea's dominant capital also seems to have had difficulty in increasing its share. Figure 4.6 shows a tendential decrease in the relative power of Korea's dominant capital since the late 1980s. More specifically, the chart represents the proportion of Korea's aggregate net profits accounted for by two dominant-capital groups—the top four and top fifth to 30th *chaebols*. Whereas the profit share of the four largest *chaebols* seems to have, one way or another, hit bottom around 1992, the other 26 conglomerates failed to recover the level of 1985. The top four *chaebols'* profit share, after reaching

the lowest point of 6.5 percent in 1992, increased to 18.5 percent in 1995. By contrast, the other group's share nosedived from 6.4 percent in 1990 to 3.5 percent in 1995 and 1.4 percent in 1996.

In my opinion, these changes in the differential power of Korea's dominant capital, along with the downward move of the abovementioned three series in Figures 4.4 and 4.5, are important for our understanding of the 1997 crisis. Since the end of the 1980s, (1) the overall growth of the Korean political economy and urban population began to slow down; (2) the distribution of income measured by the corporate share of national income decreased rapidly; and (3) the differential power of dominant capital measured by the 30 largest *chaebols*' share of total net corporate profit dropped considerably (although the top four conglomerates have experienced a V-shaped recovery). The downward trend of these indicators suggests that, underneath the immediate triggers of the crisis, there were additional and possibly much more fundamental processes at work.

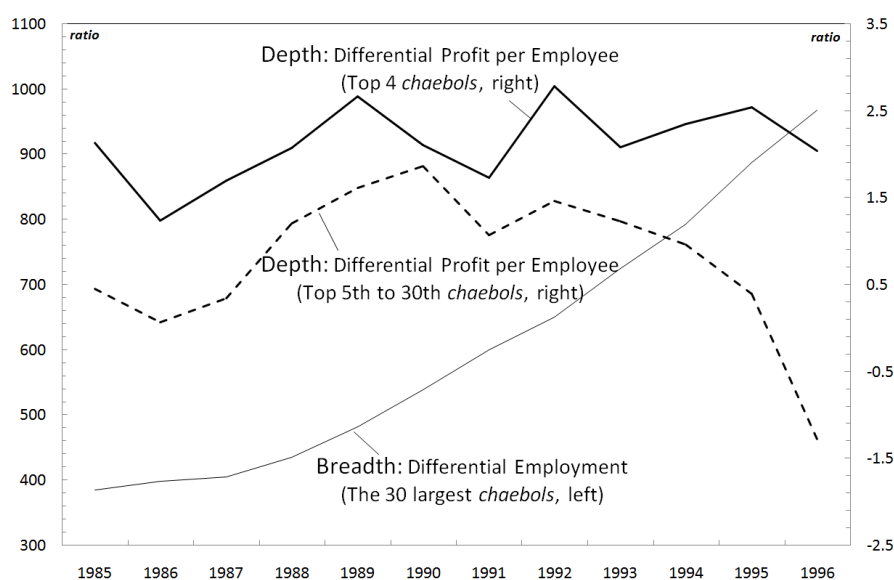


Figure 4.7 Downward Pressure on Profit per Employee

Note: "Differential employment" expresses the ratio of the average number of employees of the dominant-capital groups to the average number of employees per firm in the manufacturing sector. Due to data limitations, the analysis of the average firm is confined to manufacturing firms with more than five employees. All series are expressed as three-year moving averages.

Sources: Fair Trade Commission for the profits of the 30 *chaebols*; S.N. Choi, 2001 for the number of employees of the 30 *chaebols*; Bank of Korea for the manufacturing sector's average profit and employment.

Chief among these processes were the innate limits of a breadth regime. Figure 4.7 shows that, since the early 1990s, the ongoing expansion of differential employment by Korea's dominant capital was accompanied by stagnation and the decline of its differential profit per employee. This negative relationship is consistent with Nitzan and Bichler's argument that the immediate limit of external breadth "comes through the negative impact that it has on depth," i.e. profit per employee (2002: 49-50).

The chart has two kinds of differential series: the breadth and depth of the 30 largest *chaebols*. The analysis of depth is further disaggregated into two data series—one for the top four and one for the top fifth to 30th conglomerates. Breadth is measured by the ratio of the average number of employees of the dominant-capital groups to the average number of employees per firm in the manufacturing sector.

According to the chart, Korea's dominant capital sustained its breadth regime through the mid-1990s. The value of the differential-breadth ratio grew two and a half times during 1985-1996. While the green-field investment strategy of the four largest business groups in this period appears to have helped them maintain the level of their differential profit per employee, the other 26 groups seriously suffered from the relative profit squeeze. The ratio of the profit per employee of the fifth to 30th largest *chaebols* to the manufacturing sector's average dropped below what it had been in 1994. Indeed, during that time, the profit per employee of the 26 *chaebols* fell to less than that of the manufacturing sector's average. Since then, their business performance, in relative terms, was getting worse; they had negative earnings in 1996, one year before the 1997 crisis (see Figure 4.7).

From the analysis so far, we can draw the conclusion that, by the early 1990s, the breadth regime pursued by Korea's dominant capital ran into barriers. The 1997 crisis was the culmination of the stagnating accumulation regime. This conclusion does not imply that the financial turmoil of 1997 was inevitable. The refusal of foreign investors to roll over loans, following the sudden withdrawal of foreign capital, played an integral part in the financial collapse. Yet the very panic of foreign investors seems to have been aggravated by the negative outlook for the sustainability of Korea's excessive green-field investment in general and for the profit flow of dominant capital in particular.

It has to be mentioned that corporate earnings, both positive and negative, are based not only on business arrangements, but on the entire spectrum of power arrangements. As noted in the previous chapter, the regime of accumulation in Korea since the early 1960s had relied upon institutions and processes as diverse as selective

tax reductions, preferential interest and exchange rates, specific preferential access to foreign loans, suppressive labour policies, unconstitutional restraints on free speech and the free press, and the geopolitics of the Cold War. In like manner, the downturn of this regime since the early 1990s was also deeply affected by the changing nature of power. Whether by accident or by necessity, the waning breadth regime of Korea's dominant capital coincided not only with the depletion of surplus labour in the countryside, but also with the collapse of the military dictatorship and the transformation of the world order from the Cold War to globalization, changes that affected the entire spectrum of power institutions and restructured social relations. Thus, it is necessary to delve into these qualitative social processes in order to understand the ups and downs of differential accumulation in Korea.

Class Struggles

The success of the pro-democracy movement in 1987 spelled a serious threat to Korea's dominant capital, which had grown under the aegis of the military dictatorship. Although Roh Tae-Woo, a close friend of former dictator Jun Doo-Hwan and one of the core members of the 1980 military coup, was elected in the 1987 presidential election, and thereby enabled the ruling party to remain in power, the clock could not be turned back. The ruling class recognized that new contours of power were inevitable; that it was not possible to govern Korean society in the same way as before. Moreover, in the 1988 general election, the ruling party became the minority party in the parliament. This defeat enabled the Liberals to take the offensive in the struggles over the future of Korean society. Part of this offensive involved a parliamentary hearing on the corruption and abuse of power of former president Jun. Even though Jun escaped legal punishment,⁵ he was forced into home confinement: he stayed at a Buddhist temple called Baekdam for two years. In the wake of the 1987 popular uprising, Korea's ruling class had to accept popular demands for political reform, such as direct presidential elections, freedoms of speech and the press, and the devolution of power to the regions. This process of democratization was not a mere formality; it did shift the balance of power between capital and labour, at least for a while.

⁵Rho and Jun were arrested and jailed for the military coup and numerous ensuing illegal activities in 1995 and 1996, respectively. A special law was enacted to bring them to the justice.

This shift started immediately after the historical pro-democracy rally⁶ in June 1987. As the authority of the dictatorship was severely damaged by the uprising, its control over Korean society was considerably weakened. Labour did not miss this opportunity. Blue-collar workers, who had been subservient to the state and played an insignificant role in the anti-dictatorship movement under the authoritarian regime, finally rose up against capital.

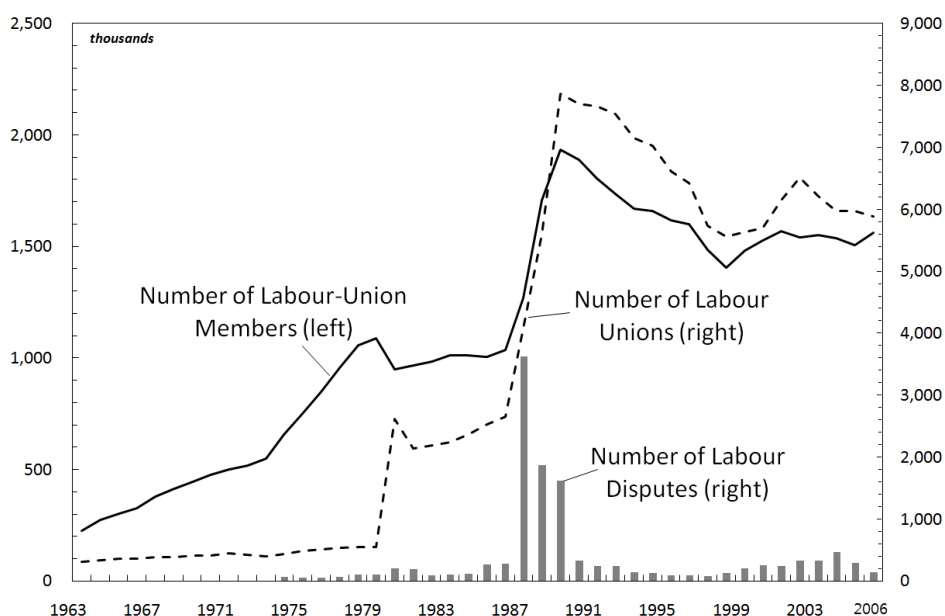


Figure 4.8 The Explosion of Labour Militancy

Note: All series are expressed as five-year moving averages.

Source: Statistics Korea

Figure 4.8 shows a dramatic change in Korea's industrial relations. The chart consists of three different series: the number of labour disputes, the number of labour unions, and the number of labour-union members. All these numbers increased in leaps and bounds in the wake of the 1987 uprising. More specifically, there were more than 3,600 labour disputes in 1987, nearly 2,000 disputes in 1988 and 1,600 disputes in 1989. There were more than twice as many labour disputes in 1987 alone as in all of 1974-1986. At the time, Korean workers demanded not merely wage increases but also freedom of association and independence for labour unions. As noted in the

⁶This rally is known as the June 10 Civil Uprising. It is estimated that about five million Koreans participated in the rally over the following 20 days. They demanded constitutional reform and an end to the military regime. Finally, giving in to the popular uprising, the authoritarian government promised radical political reform.

previous chapter, under the authoritarian regime basic labour rights (to unionize, to bargain collectively, and to take industrial action) were banned; existing labour unions were mostly organized by the state as a subpart of the state apparatus. Thus, Korean labour activists had to *fight for recognition* in the first place. Their struggles against the state and capital bore fruit, above all, within their own ranks. Between 1986 and 1989, the number of labour unions increased from 2,534 to 7,861. Over the same period, the number of labour-union members nearly doubled: from one million to about two million members (see Figure 4.8).

Around the turn of the 1990s, the Korean labour movement managed to “kill two birds with one stone.” On the one hand, labour activists, by organizing new unions or turning “government organized” unions into militant ones, were able to increase their influence dramatically over society in general as well as the working class in particular. On the other hand, the expansion of labour organizations, in terms of both quantity and quality, strengthened the collective bargaining power of workers in industrial relations (see H. G. Koo, 2002). Indeed, the uncompromising struggles of Korean workers led by militant labour activists forced capitalists to make very significant concessions.

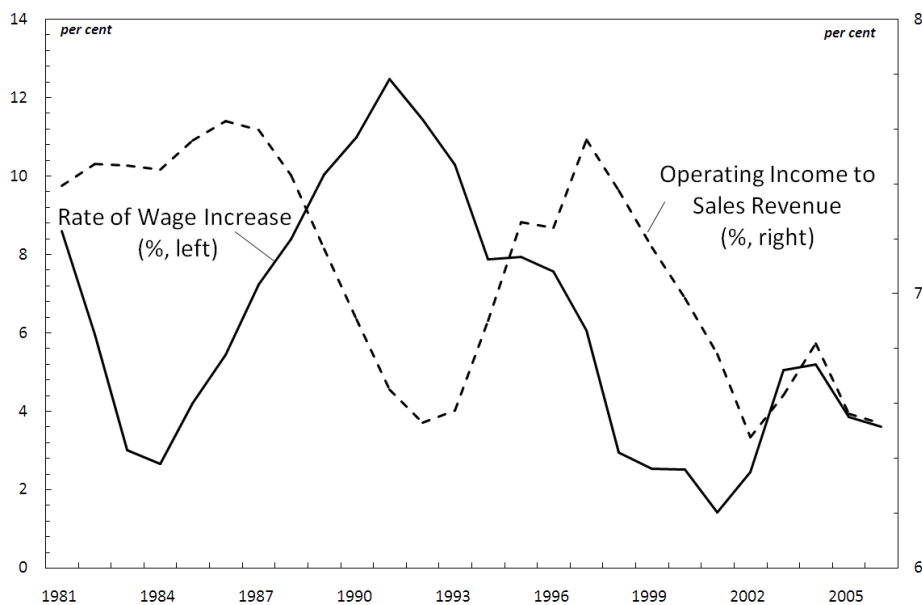


Figure 4.9 Wages and Operating Income in the Manufacturing Sector

Note: All series are expressed as five-year moving averages.

Source: Statistics Korea; Bank of Korea

First, employers had little choice but to officially recognize labour unions as counterparts in their workplaces. Second, they also had to allow wage hikes and promise to improve working conditions. As we can see from Figure 4.9, the growth of real wages in the manufacturing sector from 1987 to 1991 was twice as rapid as it had been between 1982 and 1986: whereas the real-wage increase between 1987 and 1991 averaged 12.5 percent annually, the average between 1982 and 1986 has been 5.4 percent. Consequently, Korean manufacturers had to pay more in labour costs, which in turn affected the profit mark-up. Figure 4.9 also shows that the manufacturing sector's mark-up, measured by operating income, moved counter-cyclically to the rate of wage increases during the 1987-1997 period. We may say that, despite the difficulties inherent in quantification, the wave of union activism had a negative influence on the rate of profit at least between 1987 and 1991.

The dual political economy of Korea—the structural bifurcation between the big and small business sectors that had resulted from the concentration and centralization of the *chaebols*—“helped” the birth of big organized labour. The breadth regime of Korean dominant capital since the early 1970s had been built on heavy and chemical industries. As a consequence, there emerged huge industrial complexes that, in turn, coalesced into several industrial zones such as the Seoul-Gyeonggi, South-East, and Youngnam inland belts. Most *chaebol*-owned factories were located in the cities with these industrial zones. For example, much of Hyundai Heavy Industries and Hyundai Motor, the backbone of the Hyundai Group, were located in the city of Woolsan. In 1987, the number of employees working for the two companies was more than 50,000. As of 2009, large business establishments that employ more than 500 people accounted for 20 percent of the total payroll employment in Woolsan. Before 1987, the density of workers attested to the power of capital. In 1987, however, this very density became a condensed source of energy for militant labour movements fighting against capital. The successful anti-dictatorship rally in 1987, which made Korean workers confident in their own strength, triggered the explosion of their pent-up energy. The high concentration of workers, originally the result of the dual political economy in Korea, ended up making the labour movement more “contagious.” Strikes spread easily from one place to another; from one city to another. Quite often, during the “golden age” of the Korean labour movement from 1987 to 1995, a wild-cat strike in a single workplace developed into a nation-wide general strike that, in turn, was accompanied by huge demonstrations organized by the political student movement. Woolsan, and especially Hyundai

Heavy Industries, became the epicentre of the seismic waves of militant labour activism.

The eruption of the class struggles in the late 1980s was not confined to “economic struggles,” demands for wage increases and calls for the improvement of working conditions. The labour movement made efforts to institutionalize and politicize the power of the Korean working class. Labour organizations, starting with the unionization of individual workplaces, spread from the industry, to the sector, to the nation. More specifically, the first regional confederation of independent labour unions was founded in 1987 in Masan and Changwon, a part of the Youngnam inland industrial belts. The confederation consisted of 19 labour unions. Many labour unions followed suit. By the end of 1988, there emerged 11 regional confederations, which were comprised of 403 labour unions and 113,500 members. In parallel with the formation of these regional confederations, many labour unions were also established. In 1988, Korean labour activists succeeded in creating eight industry-wide or sector-wide labour unions such as the Korean Finance & Service Workers Union, the National Union of Media Workers, the National Union of Hospital Workers, the Korean Teachers and Educational Workers Union, and so on (H. G. Koo, 2002: 253-55). This evolution of the labour movement culminated in the birth of the KCTU (Korea Confederation of Trade Unions) in 1997 and the Korean Democratic Labour Party in 2000.

This development was anything but automatic. The institutionalization of the Korean labour movement was built on the blood, sweat, and tears of the working class. The Korean government was adamant that it would not recognize labour establishments other than blue-collar labour unions organized on a company basis. Thus, for a long time, many labour unions existed *de facto*, not *de jure*. For example, KTEWU (the Korean Teachers & Educational Workers Union) was established and attempted to register officially in 1989. Yet the government refused to recognize its union status; about 1,500 teachers were fired for being members of an “illegal” entity. The KTEWU was legally recognized only in 1999. Similarly, the Korea Confederation of Trade Unions, which originated from the National Association of Trade Unions established in 1989 and currently representing 600,000 union members, also endured hardship before it was formally recognized in 1997. All labour actions organized by KCTU during 1989-1997 were deemed illegal by the government; for this very reason, virtually all leading KCTU activists experienced imprisonment. Yet the Korean working class did not succumb to state suppression. Workers got through

all the hardship and trials on their way to having a political party of their own. At last, they established the Korean Democratic Labour Party in 2000; the party succeeded in winning 10 out of 299 seats in the 2004 election.

The emergence of big organized labour unions and the labour party in Korea spelled much trouble for the state and capital. Before 1987, the working class had never directly challenged the authority of the government or its employers. Previously, most labour actions had been no more than an emotional plea for help. Two requests written in a petition, which was presented to the government by female workers in Haitai Confectionary & Foods Company in 1976, shows this characteristic well: (1) "Please, shorten working hours from eighteen to twelve hours a day!" (2) "Please, allow us to have one day off-duty in a week!" (H. G. Koo, 2002: 21). After 1987, the nature of labour disputes changed entirely. Korean workers began to chant, "Stop exploiting our labour!"

One cannot calculate precisely the extent to which this rearrangement of power relations negatively impacted corporate profits. It is also difficult to judge the degree to which the rise of organized labour played a part in the outbreak of the 1997 crisis. Nevertheless, it seems clear that Korea's dominant capital was no longer able to enjoy the obedience and subservience of the working class, obedience and subservience that had marked the external-breadth phase during the period of state capitalism. Since 1987, the emergence of the big organized labour and the accompanying democratization have been among the main concerns of big business in regard to differential accumulation.

The Global Context

In addition to the emergence of the big organized labour, Korea's dominant capital had to wrestle with external demands for the structural adjustment of the Korean political economy as a whole.

Until the early 1980s, leading Korean capitalists had been able to enjoy the benefits of protectionism, which was tolerated by the industrialized countries mainly because of the geopolitical significance of the Korean Peninsula during the Cold War. On the one hand, trade barriers, which were built up by the state, allowed Korea's dominant capital to enjoy oligopolistic privileges in the domestic market. On the other hand, the state's unconditional support for export-oriented businesses enabled

dominant capital to strengthen the price competitiveness of its exports in global markets. However, from the mid-1980s onward, the situation changed fundamentally. The détente between the US and the USSR rapidly gained momentum as Mikhail Gorbachev initiated *perestroika* and *glasnost*; moreover, Soviet campaigns for social reform led to the collapse of the Communist bloc as a whole. As a result, South Korea lost its geopolitical position in the Cold War and the advantages that this position entailed; it became one of the major emerging markets, which were conceived as the new sources of differential accumulation by global dominant-capital groups.

This “great transformation” of the world order, as Nitzan and Bichler argue, accelerated the shift of the accumulation regime on a global scale from depth to breadth. They hold that

The basic conditions for renewed breadth were laid down in the late 1980s. Soviet economic liberalisation, the abandonment of import substitutions in much of the developing world, and the retreat of statism in the industrialized countries, worked to dismantle barriers on capital mobility and ease antitrust sentiments. And with controls falling apart, large firms were now more than eager to break their last, national ‘envelope,’ moving toward integrated global ownership. The differential prize was substantial. For the winners, gains from cross-border mergers and acquisitions, bolstered and replenished by green-field prospects in the developing countries, were far greater than the increasingly risky benefits from war profits and stagflationary redistribution (2002: 266).

Korea was not an exception to this global shift. Like many other emerging markets, Korea was gradually sucked into the huge wave of neo-liberal globalization. Throughout the 1980s, the Korean government was under immense international pressure to liberalize its political economy. The pressure came from many directions, sometimes through bilateral talks with the US government, the IMF, and the World Bank, and sometimes through the GATT’s multilateral talks. The details of economic reform, which was insisted upon by the external forces, were in concordance with the so-called Washington Consensus. John Williamson (1990), who coined the term, made a list of the following ten policy reforms that characterized this consensus:

- a) Fiscal discipline: the operational budget deficit should be maintained within 1

to 2 percent of GNP. Higher deficits were seen as evidence of policy failure.

- b) Reduced public expenditures: public spending had to be rationalized by redirecting relatively unproductive expenditures (i.e., defence, public administration, and subsidies) towards pro-growth investment in areas such as primary education, primary health care, and public infrastructure.
- c) Tax reform: the tax base had to be broadened, and marginal tax rates should be cut to improve incentives.
- d) Interest rates: financial markets had to be deregulated so that interest rates were determined by the market mechanism.
- e) Competitive exchange rates: exchange rates should be competitive in order to rapidly increase growth in exports without causing inflation.
- f) Trade liberalization: quantitative restrictions on imports should be eliminated; if they could not be entirely eliminated, trade protection in the form of (low) tariffs was recommended.
- g) Inward foreign direct investment: foreign investment had to be encouraged because such investment would bring not only needed capital but also skills and know-how.
- h) Privatization: state enterprises had to be privatized because privatization increases the efficiency of industries.
- i) Deregulation: all enterprises should be subject to market discipline; state intervention should be avoided or at least reduced.
- j) Legal security for property rights: it was necessary for the state to secure well-defined property rights.

These policy recommendations were reproduced, almost verbatim, in the pre-conditions attached by the IMF to its 1997 bailout package for Korea. While these reforms had already begun gradually in the pre-1997 period, the speed of restructuring was tremendously accelerated in the aftermath of the 1997 crisis. These conditions imply that the cause of the crisis as well as the restructuring process that followed have to be understood in the context of the transformation of the global political economy.

External pressure for liberalization began well before 1997, and initially it was centred on trade. Although Korea had suffered from chronic current account deficits, its protectionism could not withstand the new trade policies of the Reagan government. The US administration, seeking to tackle its growing current account

deficit, initiated aggressive trade policies. Threatening to impose the so-called Super 301 (i.e. Section 301 of the US Trade Act of 1974), the US forced its counterparts to, in the words of the abovementioned Washington Consensus, eliminate “quantitative regulations on imports” and lower tariffs. Korea had no choice but to accept the US’s request; it had no ability to endure the damage of US trade retaliation. Korea’s exports were highly dependent on the US market: during the 1980s, Korea’s exports to the US averaged 34 percent of its total exports (Bank of Korea).

As a result of US efforts to reduce trade barriers around the world, Korea’s import-liberalization ratio rose rapidly: the ratio of unrestricted import items to total import items increased from 69 percent in 1980 to 94.7 percent in 1988. Korea’s average tariff rates also fell dramatically, from 23.7 percent in 1982, to 7.9 percent in 1994 (see Figure 4.10).

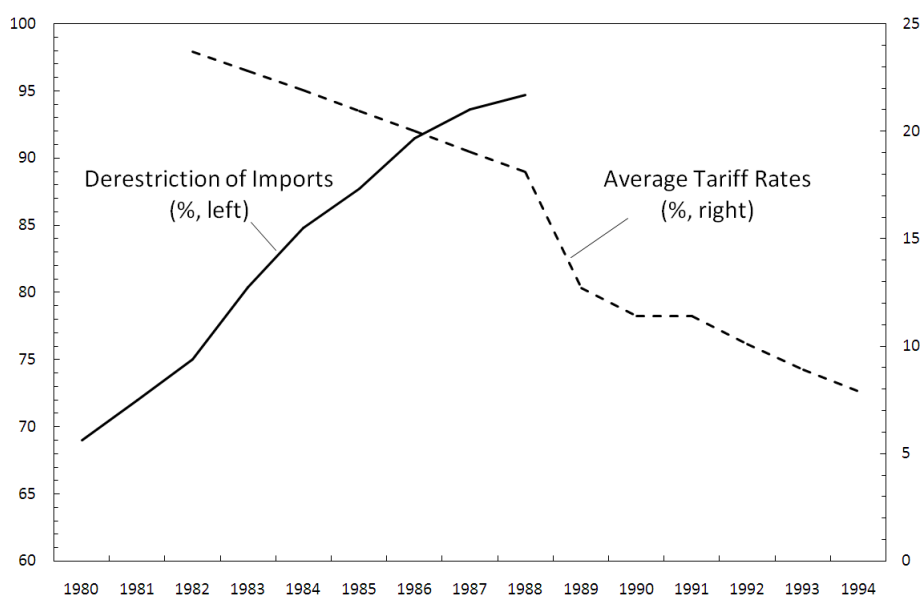


Figure 4.10 The Rapid Liberalization of Imports

Note: “Derestriiction of imports” refers to the import-liberalization ratio, measured by dividing the number of unrestricted import items by the total number of import items.

Sources: Ministry of Commerce and Industry (1989); Bank of Korea (1990); G. H. Jang & M. H. Lee, 1999.

The financial sector was another major area of contention between Korea and the US. Since the 1980s, the US, as part of its efforts to dissolve the so-called Asian economic model as a whole, increasingly pressured the Korean government to deregulate the financial sector. Although the US focused its efforts mostly on Japan, Korea’s

financial sector, which had been under state control since 1961, could not remain intact. By setting up the Joint Japan-US Ad Hoc Group on Yen/Dollar Exchange Rate, Financial and Capital Market Issues⁷ in 1983, the Reagan administration established an institutional arrangement through which it meddled in the structural reforms of the Japanese financial sector (Bank of Korea, 1992).

Although official talks⁸ between Korea and the US specifically intended to deal with financial deregulation were held in 1990, US requests for Korean financial reform had started much earlier. Indeed, one of the most important financial reforms occurred in the early 1980s: all the Korean commercial banks,⁹ which had played an integral part in “Korea’s economic miracle,” were privatized.

This privatization of the so-called city banks heralded an imminent wholesale change in the Korean political economy. A wide range of deregulatory policies followed. First of all, barriers to entry in retail commercial banking were removed. As a result, from 1982 to 1992, six new commercial banks were set up. The new entries, coupled with the privatization of the existing banks, marked, at least formally, “the end of the state-led Korean economy” (Bank of Korea, 1990: 166). One of the characteristic features of this state-led economy had been the state-controlled banking sector, through which bureaucrats determined the allocation of financial resources. This allocation of financial resources was one of the reasons that the nexus between big entrepreneurs and bureaucrats had played a key role in the differential accumulation of dominant capital.

It is also noteworthy that one of the new banks, the Hanmi Bank, was set up as a joint venture between foreign and domestic investors. The majority stake (50.1 percent of the shares) was owned by several Korean conglomerates, including Samsung, Daewoo, and Ssangyong; the remaining 49.9 percent was owned by Bank of America.¹⁰ For this reason, the official English name of the Hanmi Bank was the Kor-Am Bank, or the Korea-America Bank. The birth of the Hanmi Bank was a prelude to two major policy changes. One was the liberalization of capital flows; the other was the abolition of regulatory barriers to the *chaebols*’ entry into the banking sector. By then, the *chaebols*’ business was confined to the industrial sector. FDI in

⁷In 1988, this meeting was replaced by US-Japan Working Group on Financial Markets.

⁸The meeting was named the US-Korea Talks on Financial Policies.

⁹At the time, there were five commercial banks in Korea, which used to be called city banks—the Seoul Bank, the Choheung Bank, the Cheil Bank, the Hani Bank, and the Korean Bank of Commerce. The last one was privatized in 1972; the other four banks were privatized between 1981 and 1983 (Bank of Korea, 1990).

¹⁰The Hanmi Bank was merged with the Korean subsidiary of Citibank in 2004.

the financial sector had been completely barred. Lastly, by removing the upper ceiling on interest rates,¹¹ the Korean government launched the mechanism of the market-determined interest rate.

It has to be noted, however, that Korea's financial deregulation in the 1980s did not result in all-out liberalization. In one way or another, the state (through the Ministry of Finance) continued to control direct investment and the upper ceiling on interest rates, and to provide differential subsidies to dominant capital. For example, in 1985 a special tax-deduction law was enacted in order to encourage Korea's *chaebols* to take over corporations in bankruptcy in the aftermath of the second oil crisis. In effect, about 7.5 trillion KRW were given to dominant capital acquiring those insolvent corporations (National Archives and Records Services). Some statist writers characterized the financial reform of the 1980s as a shift from a "prohibitive" to "preventive" policy regime (Amsden and Euh, 1993). The difference between the two regimes, they argued, was that "before the 1980s, everything was prohibited except what the government allowed," while "since then, all is allowed that is not prohibited" (ibid: 381). In other words, the reform process was under complete state control; in their view, bankers had little choice but to abide by government guidelines even after financial liberalization. It is not incorrect to characterize the financial reform of the 1980s as "state led," but statist seem to have underestimated the power of the financial markets and the great wave of globalization. By the early 1990s, the Korean government, giving up state developmentalism entirely, reset the future direction of the Korean political economy towards a full-fledged neo-liberal globalization reform (which is explained in some detail in the next section).

It is also noteworthy that, initially, import liberalization did not undermine Korea's balance of payments. On the contrary, Korea's chronic current account deficit turned into a surplus in the latter half of the 1980s, following the tremendous increase of its merchandise trade surplus with the US. As we can see from Figure 4.11, at its peak in 1987, Korea's trade surplus with the US increased to 6.7 percent of its GDP. The high growth of Korea's exports led to the rapid increase of its GDP: between 1986 and 1991, annual GDP growth rates averaged 10 percent. In Korea, this period is called the "Boom of Three Lows"—i.e. low oil prices, low interest rates, and the low value of the Korean won. Given that its trade with the US accounted for

¹¹It was part of the Plan for Interest Rate Liberalization announced in December 1988. In addition to the removal of the upper ceiling, the Plan included the abolition of preferential interest rates given to major conglomerates as differential export subsidies.

about 30 percent of total foreign trade in the 1980s, Korea's huge trade surplus with the US seemed to play a major part in improving its current account balance and maintaining high GDP growth.

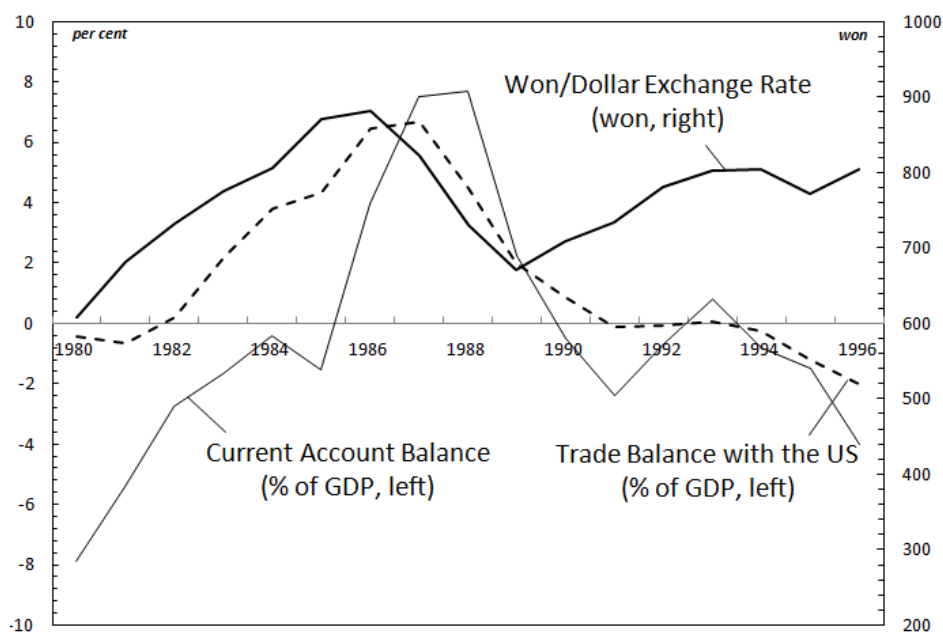


Figure 4.11 Korea's Balance of Payment and the Change in the Exchange Rate

Note: The won/dollar exchange rates are expressed as annual averages.

Source: Bank of Korea.

Why was US pressure to eliminate Korea's trade barriers accompanied by the improvement in Korea's balance of payment? According to popular wisdom, the reason is that the positive effect of the Three Lows prevalent in the mid-1980s outweighed the negative effects of liberalization. First, as the prices of raw materials in general and the price of oil in particular stabilized, Korean businessmen were able to bring down their production costs. Second, declining global interest rates from 1981 onward reduced the cost of external borrowing. Last but not least, the devaluation of the Korean won against the US dollar strengthened the price competitiveness of Korean exports: the won/dollar exchange rate increased from 484 KRW in 1979 to 881 KRW in 1986 (a 45 percent drop). Note that the first two benefits were not confined to Korea. Furthermore, the Japanese yen had appreciated by 82 percent against the US dollar in the same period. The opposite moves of the

won and yen further boosted the competitiveness of Korean exports, especially in the US.

However, the Boom of Three Lows did not last for long. As seen from Figure 4.11, in the early 1990s Korea's current account and trade surpluses with the US turned into growing deficits. This U-turn coincided with the slowdown of GDP growth, the decline in the corporate share of national income, and the decrease of the differential power of dominant capital, as noted below. Although the political economic reforms of the 1980s were hardly trivial, they were just the tip of the approaching iceberg: larger parts of the restructuring process were yet to come. Liberalization, which accelerated both domestically and globally in the 1990s, ushered in a new era of business enterprise. Korea's capital in general and dominant capital in particular had to come up with new patterns of accumulation. Failure to do so could have triggered collapse. And in my view, this is exactly what happened in Korea in 1997. Let's look more closely at the institutional arrangements of the 1990s, which culminated in the 1997 crisis.

The Active Response to Neo-liberal Globalization

When the Korean government, in the 1990s as well as in the 1980s, took steps to liberalize and deregulate the Korean political economy, at least in words, it simultaneously planned to reform the *chaebols* by strengthening anti-trust laws and promoting market competition. Indeed, as noted at the beginning of this chapter, the Monopoly Regulation and Fair Trade Act was legislated in 1980 and the Fair Trade Commission was set up in 1981 in order to restrain the further concentration of economic power. Also, the government pursued liberalization and deregulation in the belief that greater competition would lead to greater market efficiency. However, Korea's dominant capital had already grown too big to conform passively to these new rules. The *chaebols* continued to restructure and diversify in ways that would eventually increase their power over the social process.

Also, the government's declared attempt to tackle cronyism and corruption proved unsuccessful. A repeated thread runs through Korea's modern history: every newly inaugurated government pledges to sever the unscrupulous connections between *chaebol* owners and bureaucrats (or politicians), and then the impetus for reform peters out. The Kim Young Sam Administration followed this pattern. At one

time during Kim's presidency, 35 leading capitalists were arrested on bribery and corruption charges related to former presidents Jun Doo Whan and Roh Tae Woo. None was imprisoned. All except four pleaded not guilty and were declared innocent. And the four who were found guilty were put on probation (*The Kyunghyang Daily*, 27 Aug. 1996) and pardoned within a year (*The Dong-A Daily*, 30 Sep. 1997). As usual, there was a backroom deal between the Federation of Korean Industries and the government.

During the transition period of 1981-1997, Korean dominant capital was able to take advantage of the convenient mix of "state capitalism" and "neo-liberal market capitalism." On the one hand, the *chaebols* enjoyed all the benefits and special privileges of "traditional" cronyism. On the other hand, liberalization and deregulation enabled them to expand into the financial sector and look for business opportunities beyond Korea's borders. However, during that period, the ongoing expansion of Korea's dominant capital led not to the increase of its differential profit (see Figures 4.5 and 4.6), but to the accumulation of massive short-term debt. In the years leading up to 1997, the highly leveraged financial structure of Korean conglomerates made them increasingly vulnerable to unfavourable shocks, a vulnerability that culminated with the 1997 crisis.

The Declaration of a Globalization Strategy

By the early 1990s, Korea's ruling classes seem to have reached a consensus about neo-liberal globalization. Instead of passively accepting liberalization, they decided to actively turn "crisis" into "opportunity."

The neo-liberal restructuring of Korean society sped up around 1994, as the Kim Young Sam government pronounced its "Globalization Strategy." It was initially called the Sydney Plan, because it was publicized in the middle of the APEC Summit held in that city. To put it in a nutshell, the strategy aimed to upgrade Korea's global status through a comprehensive institutional transformation. In order to create a clear road map for reform, the government set up the Committee for Globalization, which consisted of civilian experts and bureaucrats. According to a white paper published by the committee (1998), the globalization strategy of the Kim Young Sam government consisted of ten sub-goals that included not only economic liberalization and deregulation, but also diverse issues such as environmental sustainability, the renewal of the educational system, investment in information infrastructure, the rule

of law, and the improvement of social welfare. Among these ten sub-goals, top priority was given to the globalization of the Korean economy according to the neoclassical template, which necessitated a wholesale political economic restructuring. The subsequent change is often characterized as a transition from the Japanese economic model to the Anglo-Saxon economic model, or as a shift from stakeholder capitalism to shareholder capitalism. Regardless of its characterization,¹² globalization in Korea required systemic social changes that involved, above all, the abandonment of the corporatist model in favour of market deregulation and the liberalization of trade and capital flows.

Table 4.2 The OECD Liberalization Index: Selected Categories (Percent, as of 1994)

Categories		Korea	OECD Average
Merchandise Trade		100	100
Current Invisible Operations	Average	77	94
	Banking and Financial Services	50	78
	Capital Income	75	100
Capital Movements	Average	56	94
	Currency Market	50	98
	Capital Market	50	90

Source: Korea Economic Research Institute, 1996.

It is noteworthy that Korea's institutional rearrangement for the new political economy, which accelerated after the globalization strategy was announced, was guided largely by the OECD before the 1997 crisis. At the turn of the 1990s, the Korean government prepared for OECD membership, which many bureaucrats and politicians conceived as Korea's promotion to the exclusive club of advanced nations. As a matter of fact, the Korean government succeeded in attaining OECD membership in 1996, but "with strings attached." In order to attain full OECD membership, the Korean government had to fulfill the requirements for OECD membership in the first place.

According to the OECD, member countries have three types of obligations: general, advisory, and liberalization. All in all, in 1996 the OECD had 178 rules, codes, and agreements that Korea had to abide by (KDI, 1997). For the Korean government, the most challenging was the Code of Liberalization. As noted in the previous section, merchandise trade had already been mostly liberalized in the 1980s.

¹²The precise nature of Korea's neo-liberal globalization is addressed in the next chapter.

The new concerns of the Korean government were the Code of Liberalization on Current Invisible Operations and the Code of Liberalization on Capital Movements. As we can see from Table 4.2, there was a wide gap between Korea and the OECD average in the liberalization indices of current invisible operations and capital movements when Korea was a candidate for OECD membership. Thus, the Korean government was required to submit a concrete schedule for the liberalization of these sectors when Korea was accepted as an OECD member country.

The Reform Plan

During 1993-1994, the Korean government announced a series of reform plans: “the third-stage blueprint for the liberalization and opening of the financial sector” in June 1993, “the five-year plan for the liberalization of foreign direct investment” soon afterward, and “the five-year plan for the reform of the foreign exchange system” in December 1994 (Park and Choi, 2002: 2). These plans provided a concrete timetable for liberalizing capital flows and removing regulations in financial and currency markets. Although the plans were revised several times in the process of resolving differences between Korea and the OECD, the frame and direction of the reform were not changed. The plans seem to have been designed for gradual and controlled change. However, that turned out to be wishful thinking. As the 1997 crisis abruptly broke out, what was supposed to have been manageable reform turned into “shock therapy”—a forcible and immediate reform supervised by the IMF.

More specifically, according to the original plans the Korean government would gradually abolish the limits on foreigners’ stock investment by 2000: it would raise the ownership limit for foreigners (including institutional investors) from 5 percent to 10 percent.¹³ A phased removal of all barriers to foreign direct investment was also planned: the index of FDI liberalization was scheduled to be increased to 93.6 percent by 1997 (from 83.3 percent in 1993). In the case of the bond market, foreign investment was to be completely liberalized by 1999, provided interest-rate spreads between domestic and global markets would remain within 2 percent. The same rule was applied for overseas commercial loans for facility investment by the Korean corporate sector and for its security issues abroad. On the capital outflows

¹³By definition, investment with more than 10 percent foreign ownership is subject to the regulations of foreign direct investment. Until 1992, foreign portfolio investment in the Korean stock market was forbidden. Initially, the ownership limit for foreigners was 3 percent for a listed firm.

side, three important changes were planned. First, the positive list system for the approval of overseas investment was to be replaced with a negative system by 1999. That is to say, with the exception of a specific list of investment forbidden by the government, all investments abroad were allowed. Second, the limits on offshore savings accounts were to be abolished by 1998. Thirdly, by substantially raising the ceiling on investment abroad, overseas portfolio as well as direct investment was about to be, in effect, fully liberalized. As for the liberalization of the financial sector, the Korean government was planning to abolish foreign-ownership limits on non-banking financial institutions and to allow foreign commercial banks to set up subsidiaries in Korea by 1998 (KDI, 1997; 1995).

However, as the 1997 crisis erupted, the planned gradual restructuring of the Korean political economy turned into a “big bang” reform: all the above-mentioned reforms were implemented a little earlier than their original schedule. First, with the Korean currency market entering a period of instability, the Korean government changed the market average rate system, through which the Bank of Korea set an official exchange rate by calculating the weighted average of the previous day’s inter-bank exchange rates, to a free-floating system. Second, restrictions on foreign ownership in the Korean stock market were completely abolished by May 1998, and the ceiling for foreign investment in the bond market was removed by the end of the year. Third, restrictions on foreign takeovers of Korean firms were also fully removed in June 1998. Lastly, the acquisition of land by foreigners was deregulated soon afterwards (Park & Choi, 2002: 6).

Liberalization for Dominant Capital

The liberalization of capital flows in the 1990s, despite its limited, phased nature, had a dramatic effect. Figure 4.12 shows that the deregulation of Korea’s financial markets resulted in a rapid increase in foreign investment during the 1990s, in marked contrast to the effect of liberalization in the 1980s. During the five years following the initial 1992 liberalization of foreign investment, the average net annual inflows of foreign-stock investment amounted to \$3.3 billion. Consequently, in 1996, the value of the foreign ownership of corporate stocks rose to 13 percent of the market, up from 3.3 percent in 1991 (see Figure 3.4). Over the same period, the issuances of overseas debt securities increased at a rate of 45 percent per annum: net inflows grew from \$2.7 billion in 1991 to \$15.6 billion in 1996. Although FDI lagged far behind

portfolio investment, it also expanded rapidly after 1993, from \$782 million to \$2.3 billion in 1996.

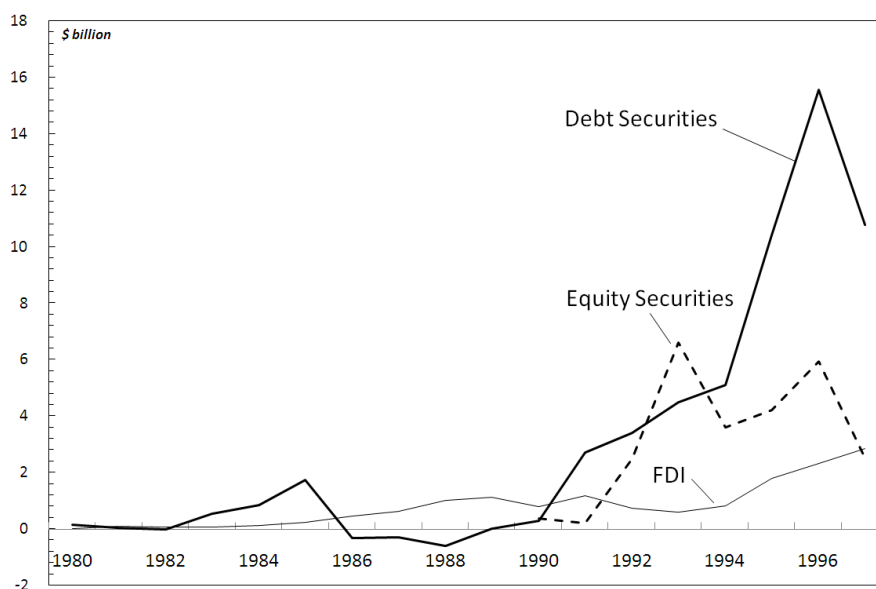


Figure 4.12 Net Inflows of Foreign Capital

Source: Bank of Korea

However, this substantial increase of foreign ownership was not accompanied by the parallel increase in the influence of foreign investors on business management. In the pre-1997 period, it was rare to find any literature that dealt with foreign ownership, let alone analyzed its potential threats to the Korean *chaebols*. The *Security Statistics Yearbook*, the annual data book published by the Korea Exchange, began to provide data on the level of foreign ownership in the Korean stock market in terms of market capitalization only in 2002.

This initial indifference to the growth of foreign ownership was, in part, due to the seemingly impregnable position of *chaebols* in the Korean business world. While the government expected the liberalization of financial markets to bring changes in the governance of Korean conglomerates, *chaebol* owners, by further expanding cross (or circular) holdings, increased their control over affiliates. Table 4.3 shows how large conglomerates prepared for the globalization of ownership. The level of cross shareholdings among the top 30 *chaebols'* affiliates more than doubled from 15.2 percent in 1981 to 32.8 percent in 1995, whereas the relative shares of *chaebol* families nearly halved, from 19.4 percent to 10.6 percent.

Table 4.3 Strengthening the *Chaebols*' Managerial Power

Business Groups	Family Ownership* (%)		Cross Holdings** (%)	
	1981	1995	1981	1995
Top 4 <i>Chaebols</i>	10.8	5.7	20.6	38.5
Top 10 <i>Chaebols</i>	13.9	8.5	19.9	34.1
Top 30 <i>Chaebols</i>	19.4	10.6	15.2	32.8

*The average share of all stocks accounted for by the *chaebol* families.

**The average share of all stocks accounted for by cross-ownership among the affiliates.

Source: Korea Exchange (quoted from Y. T. Kim, 2000: 143)

The Korean *chaebols*, guarding their flanks through a complex web of cross-holdings, tried to use capital-account liberalization for their own purposes. The liberalization of the capital account seems to have been conceived as just another way for large conglomerates to boost their assets. From 1990 onwards, the government gradually allowed non-financial corporations to engage in overseas portfolio investment and security issuance. Until then, only licensed financial institutions had been authorized to participate in global capital markets. Capital-account liberalization offered differential benefits to the *chaebols*, especially to the top five. As the cost of debt and credit access in the global capital market relies on credit ratings, relatively well-known *chaebols* with good sales records in international trade were in a better position than others. According to research (J. H. Lee, 1999: 99), the ratio of top five *chaebols*' foreign debt to their overall assets rose far more steeply than those of others during the 1990s: it increased from 5 percent in 1992 to 10 percent in 1996, while the ratio of other groups stagnated.

The Chaebols' Entry into the Financial Sector

Contrary to the official rationale for reform, deregulation in the domestic financial market, coinciding with the capital-account liberalization, furthered the concentration and centralization of *chaebols* in the Korean business universe. The government kept insisting that these two main axes of financial reform—deregulation and liberalization—aimed to replace the system of state-directed capital allocation with a free-market system in which, mainstream textbooks allege, perfect competition would deliver greater economic efficiency. This market fundamentalism provoked a strong

backlash even within mainstream economics. For example, Stiglitz (1989), criticizing the myth of the self-regulating market, held that, far from promoting greater efficiency through increased competition, “the problems of adverse selection, moral hazard, and contract enforcement” prevail in the deregulated capital market. However, it has to be noted that these are not merely the side effects of the free market, but its nature. Adverse selection, moral hazard, and contract enforcement are part of the capitalist power exerted over the social processes of production and reproduction, which are quantified into pecuniary values through the market. Thus, from the perspective of capital as power, the liberalization and deregulation of the domestic financial market are to be analyzed in terms of differential accumulation.

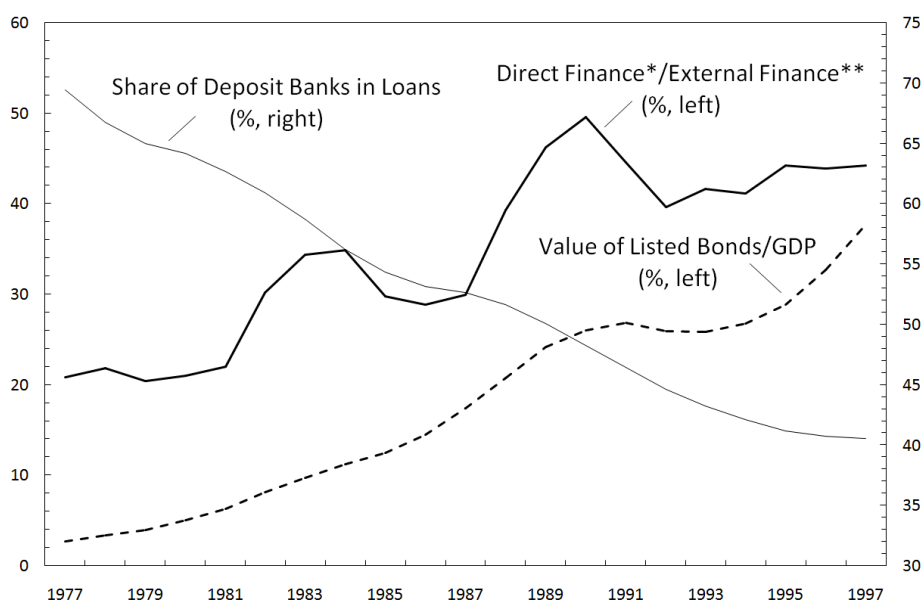


Figure 4.13 The Demise of State-directed Capital Allocation

*Capital increase through rights issues, corporate bond issues, and commercial paper.

**The sum of direct finance and loans through financial intermediaries (i.e. indirect finance).

Note: Series are expressed as three-year moving averages.

Source: Bank of Korea

One of the most essential phases in Korea’s transition from stakeholder capitalism to shareholder capitalism was the replacement of the system of state-directed capital allocation with a free-market system. It was the Korean government that initiated this transition. Indeed, as we can see from Figure 4.13, it succeeded in achieving this objective to a large extent. The chart consists of three different series: the ratio of the

market value of listed bonds to nominal GDP, the share of deposit banks in capital market loans in the Korean capital market, and the share of direct finance in the total external financing of the corporate sector.

Dramatic quantitative changes in all these series indicate a qualitative change in the Korean political economy. Stock and bond markets expanded rapidly since the early 1980s. For example, the size of the Korean bond market, measured by the market value of all listed bonds expressed as a share of nominal GDP, had grown from 5 percent in 1980 to 26 percent in 1990, and to 38 percent in 1997. It is also worth noting that the share of deposit banks in Korean capital-market loans decreased rapidly over the same period: it dropped by 24 percent point, from 64 percent in 1980 to 40 percent in 1997. This latter decline can be regarded as one of the government's major "achievements." The Korean government, in its effort to replace the state-directed capital-allocation system with a free-market system, had encouraged kerb-market funds to be turned into formal NBFIs (non-bank financial institutions) such as asset-management companies, trust companies, merchant-banking corporations, and mutual-savings banks. It also promoted the growth of direct financing, with firms issuing stocks, corporate bonds, and commercial paper. Consequently, the share of direct finance in the total external financing of the Korean corporate sector grew from 23 percent in 1980 to more than 40 percent on average throughout the 1990s.

The development of NBFIs and internal financing, coupled with the relative decrease of bank loans, marked the end of the state-directed capital allocation system that had been central to the old statist regime. Yet this transition has not eliminated power from the capital-allocation process. Newly emerging market institutions were based on power no less than the state-directed institutions that preceded them had been. Note that the rapid growth of NBFIs was led by the *chaebols*, and it was led in a manner that helped Korean dominant capital further strengthen its power over capital allocation.

The Korean government, in the belief that greater competition would result in higher efficiency, loosened the restrictions on *chaebols'* ownership of financial institutions. Yet the result of the deregulation was far from higher efficiency through greater competition. It ended up enabling the *chaebols* to jump into the driver's seat of the capital-allocation system. The leading business groups, by becoming major shareholders in city banks and setting up NBFIs of their own, increased their power over capital flows.

Table 4.4 The Major Shareholders of City Banks
(Ownership in Percentage Terms, as of 1992)

	Choheung	Hanil	Jeil	Sangup	Seoul
Government	7.6	7.0	7.1	7.6	7.8
Samsung	5.8	5.0	5.5	8.5	3.6
Other Top 30 <i>Chaebols</i>	17.1	12.3	16.1	6.7	11.6

Source: J. B. Choi, 1995: 275

The Samsung Group, for an example, which had owned or controlled several banks before the military government nationalized the banks in the early 1960s, had ownership stakes in all the main commercial banks.¹⁴ As we can see from Table 4.4, in 1992 Samsung had, on average, 5.7 percent ownership of the five major Korean commercial banks. The top 30 *chaebols* together owned another 18 percent between them. However, during the 1980s and 1990s, government regulation and supervision in the banking sector still remained stricter than in other financial areas. Moreover, the primary owner of the city banks remained the government. For these reasons, dominant capital preferred to own and control various kinds of NBFIs.¹⁵ The *chaebol* groups looked upon NBFIs as SPCs (special purpose companies) that enabled them to bypass government supervision¹⁶ when they mobilized capital for their affiliates.

One consequence of the changes in the *chaebols*' debt financing was that their share in loans from commercial banks decreased throughout the 1990s. Between 1988 and 1995, their share dropped by nearly 10 percentage points from 23.7 percent to 13.9 percent, while their debt-to-equity ratio moved in the opposite direction—from 2.8 in 1989 to 5.4 in 1997 (Kim and Lee, 2010: 38). The relative decrease of the *chaebols*' loans from commercial banks seems to have been offset by the increase of their loans from NBFIs and foreign investors. This change in loan sources for the top

¹⁴After all city banks were privatized in the early 1980s, an individual could own up to 8 percent of a bank's shares. This upper limit was lowered to 4 percent in 1994. In the wake of the 1997 crisis, the ownership limit increased to 10 percent.

¹⁵Before the deregulation of the 1990s, only commercial banks were allowed to own investment trust companies. The top 15 *chaebols* could not own or control life-insurance companies before then (Kim and Lee, 2010: 37).

¹⁶The Korean government limited the total amount of loans that commercial banks could provide to the *chaebols*. The limit kept adjusting; in the 1990s, on average, the share of the top 10 *chaebols* in loans from commercial banks could not be more than 10 percent of the total bank loans (Y. H. Lee, 2005: 164).

30 *chaebols*' financing was coupled with a change in their debt structure. The share of short-term debt in total debt increased throughout the 1990s—from 28 percent in 1989 to 42.5 percent in 1997 (Y. H. Lee, 2005: 159). In turn, the relative increase of short-term loans in the *chaebols*' debt composition tended to be concomitant with the rise of overall financial risk.

There is consensus between statist and neo-liberal observers that the growing share of short-term debt, resulting from the Korean *chaebols*' entering into NBFIs, is one of the main causes for the 1997 crisis. Indeed, as we can see from Table 4.5, most of the conglomerates that went bankrupt in 1997 before the Korean government formally asked for an IMF bailout were characterized by massive loans from NBFIs. For instance, Kia, the eighth-largest conglomerate at the time, relied on debt financing from NBFIs almost twice as much as from banks.

Table 4.5 Major Bankruptcies in 1997 (billions KRW)

Date	Company	Major Business	Rank in Korea	Loans from Banks	Loans from NBFIs
Jan. 23	Hanbo	Steel	14	3,345	2,130
Mar. 19	Sammi	Steel	26	371	452
Apr. 21	Jinro	Retail	19	868	2,342
May 19.	Daenong	Retail & Textile	34	483	668
July 17	Kia	Autos	8	2,805	5,011
Nov. 1	Haitai	Food & Electronics	24	1,488	1,880
Nov.4	New Core	Retail	25	905	293
Dec. 8	Halla	Heavy Industry	12	3,036	3,440

Note: The rankings of firms are based on asset size (book value).

Source: Ministry of Finance and Economy (quoted from Park & Choi, 2002: 9)

The case of Jinro, the nineteenth-largest business group, was more serious than Kia's. Its loans from NBFIs were nearly three times greater than its loans from the banks. This greater autonomy enabled it to assume far higher risk. This higher risk, in conjunction with the East Asian crisis, brought about its demise. Yet its demise eventually proved instrumental for larger and more powerful groups, which took them over. The liberalization and deregulation of the Korean political economy resulted in a further concentration and centralization of capital through the 1997 crisis.

An Asian Big Fish in a Small Pond!

Certainly, the changes affecting Korea's financial system must have been a key factor in the Korean economic crisis of 1997. As we have seen, the high debt-to-equity ratio and the rapid build-up of short-term debt put the Korean corporate sector at the mercy of jittery foreign creditors. Yet, in my view, it is an overstretch to attribute the crisis exclusively to the debt problem. The size of the debt alone had little significance. Debt turns into a burden only if it grows faster than future earning capacity, which in turn is based on the entire spectrum of power institutions and business arrangements. As this chapter has shown, the financial aspects of the crisis should be understood within the broader social context of capital accumulation and political domination, of which process debt is only one of many financial manifestations.

As noted below, in the 1990s the pace of urbanization in Korea, one of the most important factors in the country's rapid economic growth, began to slow down, partly because the country had almost reached "full-urbanization." The ratio of the urban population to the total population exceeded that of most industrialized countries. This maturation meant that Korea was left with limited room for further green-field investment within its own borders. Whether by accident or by necessity, the depletion of the "surplus labour pool" coincided with democratization inside Korea and the collapse of the bipolar system in the world order. The Korean ruling class had little choice but to restructure the way it controlled society. The restructuring process seems to have sped up around 1993, when Kim Young Sam came to power. The new government attempted to use liberalization in order to adjust Korean capital to the changing internal and external circumstances.

It is true that, as statist¹⁷ held, the policy shift to liberalization can be explained, however partially, by the pressures from the advanced countries, especially the United States. However, it would be incorrect to say that the change was simply the consequence of such external pressures. This kind of explanation ignores the rise of neo-liberal ideology *within* Korea. As we have seen, the government and dominant

¹⁷For example, H. J. Chang (1998) held that "the agreement from the March 1992 bilateral talks with the United States subsequently formed the basis for the radical 1993 financial liberalization program." Walden Bello (1998) also argued that the Korean government's concessions to the IMF—including raising the limit on foreign ownership of corporate stocks to 55 percent, permitting the establishment of foreign financial institutions, fully liberalizing financial and capital markets, ending government-directed lending for industrial policy goals—were a result of the bilateral talks between the US and Korea.

capital, although initially reluctant to do so, adopted neo-liberalism as a *deliberate* strategy. Since the Jun Doo Hwan military government took office in 1981, the Economy Advisory Board, the control tower of Korean industrialization, increasingly became filled with people who were imbued with neo-liberal views. Many of these people had studied neo-classical economics in the US and received PhD degrees there (Y. T. Kim, 2000: 171). They gradually gained hegemony in the Economy Advisory Board, and they increasingly redirected the future course of Korea's political economy in the spirit of neo-liberalism. In the process of financial liberalization, they abandoned the Five Years Economic Plan and eventually dismantled the Economy Advisory Board itself. They put an end to the industrial policy coordination that had been the central apparatus of the distributional coalitions.

This liberalization process has often been misleadingly characterized as the weakening of the state, with power shifting from the state to the market. The first problem with this view is the belief that the "market is merely a mechanism" (Nitzan and Bichler, 2002: 17) and therefore cannot be an agent of power. Paradoxically, it is exactly for this reason that the proponents of neo-liberalism glorify the market. Its apparent neutrality tends to hide the class and power nature of the political economic process. Second, as we have seen, it was the state that initiated and actively implemented neo-liberal reforms. Although the state was reducing its direct intervention in production and distribution, its indirect role in the differential accumulation of capital remained as important as ever. What distinguishes liberalism from statism here is not the elimination of power, but its transformation. The state apparatus, which used to be subject to the *sheer force* of the military elite, was becoming increasingly subservient to dominant capital in the name of "business-friendly" policy.

This power shift was symbolically represented by the replacement of the state-directed system of capital allocation by a "free-market" system. While the Korean government declared its pursuit of higher economic efficiency through financial liberalization, its actions enabled dominant capital to increase its control over capital allocation. As soon as the *chaebols* gained access to the financial sector, they brought several NBFIs under their control. And through these NBFIs, which circumvented government supervision, they could mobilize capital for their affiliates.

While neo-liberal reform advanced rapidly, Korean dominant-capital groups continued to cling to their old strategy of green-field investment. Their ambitious strategies to carve out export markets became bolder than ever. With the government

having abandoning its industrial policy coordination, the *chaebols* went on to increase their green-field investments in several major industries, including automobiles, iron, semi-conductors, and shipbuilding. Their investment relied heavily on loans from local and foreign sources, especially short-term loans through NBFIs. However, this expansion occurred amid heightened labour shortages, rising real wages, and growing competitive pressure from other East Asian countries. The result was downward pressure on differential profit. As illustrated in Figures 4.6 and 4.7 above, most leading business groups suffered decreasing profits relative to the average firm.

In early 1997, immanent signs of crisis started to show up. Hanbo, one of the 30 largest conglomerates, went bankrupt. Soon after, many other *chaebols*, such as Sammi, Kia, and Halla, began insolvency proceedings. Since all of them relied heavily on debt financing, the deterioration of the corporate sector translated into the weakening of the financial sector. A series of large-scale corporate bankruptcies caused the volume of non-performing bank loans to increase rapidly. The stringent lending policies adopted by financial institutions, in an attempt to minimize the effects of a worsening economic situation, resulted in capital shortages, which further increased the number of bankruptcies.

Cronyism, coupled with deregulation, played a major part in this debt spiral. Cronyism was the legacy of Korea's past development process. The 30 years of government-led growth created a close and collusive relationship between the government and the *chaebols*. The *chaebols* often engaged in projects at the government's bidding, and the government, in turn, implicitly provided insurance against project failures. Korean society came to accept the so-called "too-big-to-fail" expectation. With this expectation, the Korean conglomerates' main concern became expansion in size rather than profit. To finance their business expansion, firms chose debt-financed growth over equity-financed growth. The high debt-to-equity ratio of the Korean corporate sector that resulted from this strategy exceeded 400 percent by the end of 1997, and the average ratio for the 30 largest *chaebols* reached 500 percent. In this highly vulnerable situation, insolvent corporations and financial institutions damaged Korea's credibility abroad, leading to foreign-capital flight. The vicious cycle of foreign-exchange shortages and the deterioration of Korea's credibility developed into a full-fledged foreign-exchange crisis at the end of 1997.

In some sense, Korean dominant capital could be likened to "a big fish in a small pond" that knows little about global capital. Market discipline turned out to be much more severe than it had expected. During the late 1980s and early 1990s,

Korea's leading capitalists changed their mindset. They began to see democratization and globalization as opportunities for expanding their power further. And indeed, liberalization enabled Korea's dominant-capital groups to shed off the shell of the state cocoon and break the domestic envelope. Yet these groups do not seem to have fully understood the nature of the new world order that they willingly endorsed. In the old system, the yardstick for power was direct control over organization. In the new system, it was indirect control through profit and capitalization. And it is the enormous implications of this transition that the *chaebols* did not and indeed could not appreciate. It took a crisis for them to learn these implications the hard way. Since liberalization began, the Korean political economy was increasingly integrated into the orbit of global dominant capital, which moves according to the universal creed of capitalism, i.e. *capitalization*. Although the financial market was not fully liberalized in the 1990s, the Korean business universe was largely subject to global capital movements. Thus, the foreign-capital flight or refusal to rollover debts in 1997 dealt a fatal blow not only to the Korean corporate sector, but also to society as a whole.

It was only after the 1997 crisis that Korean dominant capital finally internalized the universal creed of capitalism. Perhaps they learned a "good" lesson from the crisis, especially from the IMF shock therapy. The next chapter delves into the transformation of the Korean *chaebols* in the post-1997 period.

The Transformation of Korean Capitalism in the Post-1997 Period: Capitalization and Trans-nationalization

The 1997 crisis accelerated the neo-liberal reform of the Korean political economy that had been under way since the mid-1980s. The Washington Consensus of liberalization, deregulation, privatization, and flexible labour, which was originally set to be a gradual and controlled change, turned into a radical reform under the IMF's supervision. A year after the Korean government had officially asked the IMF for a bailout, Korea's currency market and capital account were fully liberalized. The exchange rate was changed to a free-floating system; restrictions on foreign ownership in the Korean stock market were completely abolished; ceilings on foreign investment in the bond market were removed; and foreign takeovers of Korean firms were fully deregulated. Moreover, in the name of industrial rationalization, flexible labour has become the norm: in 2000, irregular jobs accounted for 52 percent of Korea's job markets, up from 43 percent in 1995, a year before the financial crisis (Statistics Korea). Consequently, Korea's economy has become increasingly exposed to the vagaries of the global market, while job insecurity has become widespread.

There is a general consensus that a qualitatively different society emerged in the wake of the 1997 crisis. Yet heated debates on the nature of the change still rage. What was the driving force behind the radical reform? Was the liberalization of the Korean economy just an externally imposed change? Did the establishment of market principles undermine the power of the state? Did the restructuring of the Korean economy in the aftermath of the 1997 crisis weaken Korea's engine of growth? In my view, none of the predominant arguments in the debates on the nature of the post-1997 reform (which are examined in detail in the next section) is satisfactory. In a

nutshell, their approaches to the questions are premised on the dichotomy between “the state” (or politics) and “capital” (or the market), or between “productive (domestic) industrial capital” and “speculative (foreign) financial capital.” On the one hand, leading opinion makers, preoccupied with economic growth, commonly characterize the kernel of the restructuring process as a shift from a “high-economic growth model with high investment” to a “low-economic growth model with low investment.” On the other hand, from their dichotomous perspectives, their opinions on the culprit of this change are largely divided into two opposing camps: one camp finds the cause in cronyism and the anachronistic management of the Korean *chaebols*, the other in the “unproductive” nature of foreign financial capital. Accordingly, the former, expecting the improvement of corporate transparency and efficiency, welcomes the so-called global standards and increased foreign ownership in the Korean business world. The latter, reminiscing about the rapid economic growth under the military dictatorship, asks the government to further support the Korean *chaebols* and to protect them against foreign capital.

Despite their popularity, in my opinion the two camps use inadequate frameworks and fail to grasp the nature of the post-1997 restructuring process. Seen from the perspective of capital as power, it is misleading to assume that the state stands against capital (or the market) and that domestic industrial capital is productive whereas foreign financial capital is unproductive, or vice versa. Corporate earnings, regardless of whether the sector is financial or industrial, are determined not by productivity *per se*, but by the control of productivity, which is a matter of power. This power is based not only on business arrangements, but also on the whole spectrum of institutional arrangements. Thus, it can be said that corporate earnings represent “the power of capitalists, operating against opposition, to strategically shape the societal process to their own ends” (Nitzan and Bichler, 2002: 36).

Historically, capitalist power has evolved under state protection; at the same time, the development of this power has been changing the very nature of the state. The abovementioned two camps do not seem to be aware of this mutual transformation and integration of both the state and capital through their historical interaction. The power of the state, by influencing differential capitalist earnings and risk, becomes a facet of capital, while state organizations and institutions have been increasingly conditioned and shaped by the logic of capital. In contemporary capitalism, the state and capital have to be seen as “both part and parcel of the same architecture of mechanized social power,” which is differentially quantified in

pecuniary values (Nitzan and Bichler, 2009: 281). If capital is indeed the commodification of power, it is meaningless to distinguish industrial capital from financial capital in terms of “productivity.” Both the Korean *chaebols* and foreign capital pursue one and the same goal—the accumulation of power.

The purpose of this chapter is to grasp the nature of the transformation after the 1997 crisis from the perspective of capital as power. The thrust of the arguments is as follows. First, the transition from statism to neo-liberalism is characterized not by the retreat of the state but by the establishment of the ritual of *capitalization* as the *nomos* of Korean society through which state power is subsumed into the capitalist mode of power. This process, in turn, has completed the amalgamation of the disparate fractions of Korea’s power bloc into a coherent ruling class that has come to see the world from a single viewpoint. Second, the essence of recent globalization, which played a significant role in Korea’s transition from statism to neo-liberalism, is the trans-nationalization of capitalist power through the spatial integration of ownership and accumulation. In this process, Korea’s ruling capitalists, transcending their parochial boundaries, have become integrated into the trans-national structure of *global absentee owners*. Lastly, intensifying social polarization in the wake of 1997 has to be understood in the context of the expanding differential accumulation of Korea’s dominant capital. In an attempt to go beyond the limits of an external-breadth regime (or green-field investment) pursued for a long time, the *chaebols* have strengthened their strategic sabotage against other social groups. Their efforts have resulted in a successful upward redistribution of the existing pie without increasing the size of that pie.

Although the 1997 crisis catalyzed a “big bang” reform, the restructuring of the Korean political economy itself had begun much earlier. In this process, intrinsic motivation played no less significant a role than external pressure did. As noted in the previous chapter, there were three driving forces behind Korea’s “great transformation”: (1) the global shift of accumulation from depth to breadth, coupled with the transition from the Cold War to globalization, which reset the “limits of the possible” for Korea; (2) the changing balance of power among various social groups, not only between capital and labour but also within the ruling class, which was accelerated by the successful popular revolt of 1987; (3) the negation of the “state cocoon” by the “capital larva,” a transmutation process through which the Korean *chaebols* not only outgrew their incubators, i.e. state institutions, but also took them

over. This chapter examines the radical post-1997 reform in terms of these underlying processes.

No matter how dramatic the recent neo-liberal change has been, it is the latest phase in the evolution of the capitalist mode of power in Korea rather than a structural break with the past. The central axis of this process is the differential capitalization of power, which involves the formation and consolidation of the capitalist ruling class. This chapter, by interweaving various institutional changes with the quantitative analysis of differential accumulation, tries to show how the power structure was increasingly capitalized by trans-nationalized dominant capital.

Controversies over the Nature of the Post-1997 Restructuring

There is almost no disagreement among Korean critical economists about the characterization of the post-1997 Korean economy as “polarized growth” (D. M. Ryu, 2010). By this term, they mean that, although the Korean economy recovered rapidly from the crisis, the benefits of the recovery did not “trickle down” at all. More specifically, in the wake of the 1997 crisis, Korea’s macro-economic indicators such as the real GDP growth rate, the unemployment rate, and foreign reserves quickly got back on track.¹ Yet it is said that the engine of Korea’s long-term growth has weakened as fixed capital investment has decreased, as flexible labour has made the job market extremely unstable, as the youth unemployment rate has increased, and as the gap between “big” and “small” businesses has widened (G. H. Jung, 2006). What is worse, critical economists commonly argue, the post-1997 restructuring has intensified social inequality in Korea.

Yet, while the critics agree on the nature of polarized growth, their opinions on its root cause and desirable solutions remain divided. The debates are led by two opposing camps whose perspectives may be referred to as “shareholder capitalism” and “nationalist corporatism,” respectively. The key difference between the two camps lies in their stance on the Korean *chaebols* and foreign capital. The advocates of shareholder capitalism, who see the *chaebols* as the culprit for the slowdown in economic growth and the cause of the 1997 crisis, have campaigned to toughen

¹ Over the 10 years from 1999 to 2008, annual real GDP growth averaged 5.5 percent. Although this average fell short of the previous level, Korea’s GDP growth was much higher than the world average and the OECD average. Over the same period, the former was 3.1 percent and the latter 2.3 percent.

regulations on these groups' business activities, especially to reform their governance structure by strengthening (minority) shareholder rights. By contrast, the proponents of nationalist corporatism regard foreign financial capital as the origin of the problems. They argue that the Korean economy, which used to be led by "productive" industrial capital, has become increasingly subordinated to the logic of foreign financial capital, which has no interest in industrial development and pursues only short-term profits and high dividends. Therefore, expecting industrial capital to increase long-term investment for economic development, they demand the Korean government to help the *chaebol* families (i.e. major shareholders) keep their control over the conglomerates.

To put it more specifically, the advocates of shareholder capitalism hold that the polarized growth of the Korean economy as well as the 1997 financial crisis have been caused by chronic cronyism and the old-fashioned managerial practices of the *chaebols* (S. J. Kim, 2004; 2005; G. W. Kim, 2001; H. S. Jang, 1998). It is said that problems endemic to the *chaebol* system, such as primary owners' abuse of power, embezzlement, unfair internal transactions between subsidiaries, and unscrupulous relationships with bureaucrats, have remained intact even after the 1997 crisis. In this regard, they argue that the Korean economy is still locked in the logic of the authoritarian, corrupt developmentalism that was bequeathed by the dictatorial military regime. Given that economic power is highly concentrated in the hands of a few conglomerates, there will be no feasible solutions for intensifying income inequality, job instability, and the weakening competitiveness of small- and medium-sized enterprises unless Koreans "democratically" control them. In order for the Korean economy to advance to a higher level of development, they suggest (1) restricting circular ownership, (2) separating management from ownership, (3) increasing the transparency of corporate governance by strengthening the rights of minority shareholders, and (4) dismembering the congregated *chaebol* subsidiaries into independent corporations. Above all, these are proposals for introducing a system of checks and balances into the boardrooms of the Korean *chaebols* and thereby creating a level playing field. Many advocates of shareholder capitalism believe that these proposals can be implemented by instituting the free-market practices—fair competition and the rule of law—that they think characterize the Anglo-Saxon economic model (S. J. Kim, 2012: 195-217).

The main reason for their wrong solutions for the right problem, I think, lies in their misunderstanding of the way in which power evolves in capitalist society. The

advocates of shareholder capitalism tend to assume that the market has a self-regulating mechanism that provides a level playing field for every market participant. If the state enforced laws against unfair competition, they believe, the free market would prevent the concentration of economic power, thereby increasing the efficiency and productivity of the Korean economy. As argued above, the market in capitalism is a mechanism through which capitalist power over social processes is differentially quantified. The price of a commodity, the profit of a corporation, and the accumulation of capital are influenced by the entire spectrum of power that includes both *legal* and *illegal* and both *overt* and *covert* social arrangements. Even if the state enforced “fair” competition, political economic power would remain concentrated in the hands of a few. Furthermore, oligopolistic competition is unique neither to Korea nor to the Asian model more generally. It is universal in all capitalist societies, including in the Anglo-Saxon countries that the advocates of shareholder capitalism think the Korean economy should emulate. It should also be noted that embezzlement, accounting fraud, internal transactions, and the unscrupulous relationships between the state and capital are common in Anglo-Saxon countries. This point is well illustrated by the global financial crisis of 2008. Fair competition exists only in mainstream economics textbooks. Strengthening shareholder rights may undermine the arbitrary power of the *chaebol* families. Yet, regardless of who runs corporations, their nature as power organizations will not change because that nature is built into their logic as corporations.

The proponents of nationalist corporatism are diametrically opposed to shareholder capitalism. They lay the entire blame for the 1997 crisis and the polarized growth that occurred in its wake on foreign capital. They argue that foreign capital, taking the driver’s seat of the Korean economy, has remade Korea in the image of the Anglo-Saxon model, which is characterized by “financialization” (H. J. Chang, 2004; C. G. Lee, 2004; Chang & Sin, 2004). The advocates of nationalist corporatism argue that foreign financial capital, pursuing short-term profits and high dividends, is reluctant to invest for the long term. For them, it is the speculative nature of foreign capital that caused the stagnation of green-field investment, the rapid increase in irregular-work and youth-unemployment rates, and the intensification of income inequality. In other words, the increasing influence of foreign capital over the Korean *chaebols* and the financial sector has weakened Korea’s growth engine. Therefore, they claim, in order to defend the national basis of the Korean economy, the state should protect the *chaebols* (i.e. industrial capital) by toughening the regulations on

foreign (financial) capital, on the one hand, and that capital, labour, and the state need to reach a compromise, on the other. The proponents of nationalist corporatism expect that the *chaebol* families will increase investments and create jobs for labour in return for a guarantee of their managerial control over the conglomerates. Moreover, praising statist industrial policies and successful green-field investments, they do not shy away from hailing the “ancient regime,” that is, the coalition between the military dictatorship and the *chaebols* (H. J. Chang and S. I. Jung, 2005).

Their enthusiasm for industrial development, regardless of its true political intentions, is tantamount to advocating a return to an authoritarian regime. In my view, the contradiction between “progressive” critiques and “conservative” suggestions arises from a misleading categorization of capital as either “industrial” or “financial.” The proponents of nationalist corporatism confuse the difference between industrial capital and financial capital with the difference between industry and business in the Veblenian sense. From a functionalist viewpoint, the financial sector may be distinguished from the industrial sector. However, if we focus on the origin of profit, there is no difference between the two sectors. Capitalists in the industrial sector, like their counterparts in the financial sector, do not produce anything; they simply control production. They, on the basis of property ownership, have legal claims on earnings, which are determined not by the productivity of each industry they control but by their power over the whole social process. Capitalists in all sectors, by controlling key aspects of the holistic process of production and reproduction, claim their share of the social pie.

Understanding Polarized Growth from a Power Perspective

“Polarized growth” may appear to be abnormal when viewed through the lens of conventional economics, which defines capital as a productive entity. Yet, seen from the perspective of capital as power, polarized growth is not an unusual phenomenon, but the norm. Without polarized growth, contemporary society would no longer be capitalist. Capitalists, as Thorstein Veblen said, do “business,” the essence of which is to privatize “industry,” the cooperative, integrated process of production. In other words, capitalists pursue not industrial development as such but power over the social process of production, which is quantified into pecuniary values. This power in turn is based on their potential capacity for *exclusion* and *deprivation*. These abilities are

embedded in the legal concept of private ownership. With private ownership, capitalists are entitled to deprive the proletariat of the right to work and to build barriers to prevent other capitalists from entering their business territories. Commodity prices, corporate profit, and the accumulation of capital are the quantitative reflections of this potential power of capitalists, relative to each other, which Veblen called “strategic sabotage.”

In this framework, capitalist income is not expected to always have a positive relationship with production. Unlike conventional economics, which postulates a positive relationship between the two, Nitzan and Bichler (2012: 7) argue that “if one thinks of capital as power, exercised through the strategic sabotage of industry by business, the relationship becomes nonlinear.” According to them, as illustrated in Figure 5.1, the capitalist share of income moves positively with the utilization of industrial capacity² up to a point. Yet, beyond that point, the relationship between the two will be negative.

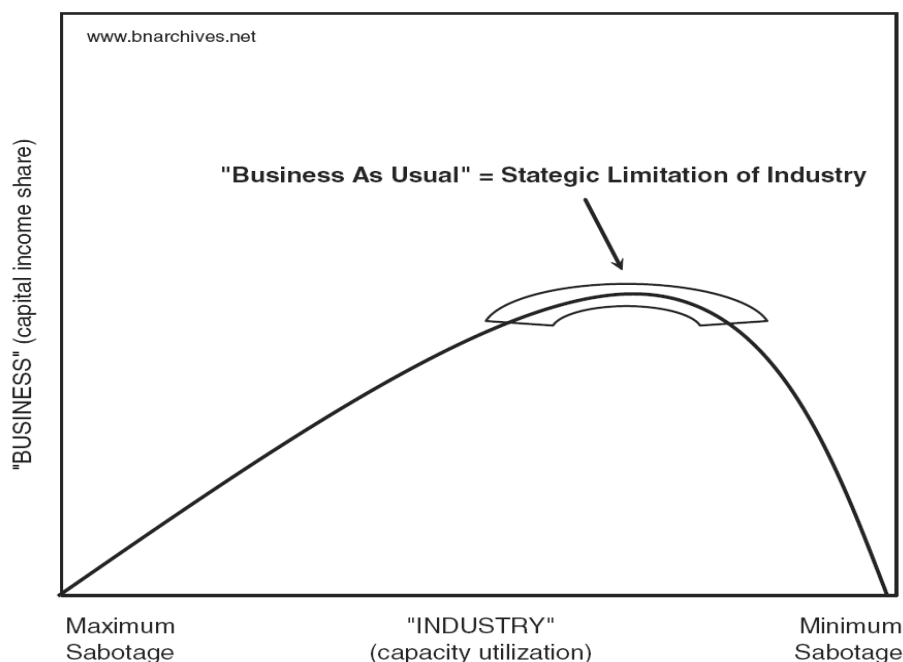


Figure 5.1 Business and Industry

Source: Nitzan and Bichler (2009) *Capital as Power: A Study of Order and Creorder*, p.237.

²Their understanding of industrial capacity should be distinguished from the conventional understanding. According to Nitzan and Bichler (2009: 235-6), “conventional capacity measures consider what is feasible under the existing social order of business enterprise and production for profit,” whereas for them, industrial capacity is “based on a material/technological limit” of society as a whole.

The reasoning behind this changing relationship is not difficult to figure out. “If industry always and everywhere operated at full socio-technological capacity,” argue Nitzan and Bichler (ibid: 7-8), “industrial considerations rather than business decisions would be paramount, production would no longer need the consent of owners, and these owners would then be unable to extract their tributary earnings.” Thus, in an attempt to find an “optimal” point for profit, capitalists try to restrict the industrial activities of their existing or potential rivals and, at the same time, to incapacitate the industrial community at large. Nitzan and Bichler (2009: 248) call the former “differential industrial sabotage” and the latter “universal industrial sabotage” respectively. Historically, capitalists have created many institutional arrangements for these purposes. Nitzan and Bichler (ibid: 247) argue that

The means of achieving this differential end are numerous, transcending both business and politics and spanning the societal spectrum from the individual to the global. These means include direct limitations, such as predatory pricing, formal and informal collusion, advertising and exclusive contracts. They also include broader strategies like targeted education, patent and copyright laws, industrial policies, financial regulations, preferential tax treatment, legal monopolies, labour legislation, trade and investment pacts and barriers and, of course, the use of force, including military, for differential business ends.

In my view, this sabotage theory of capital accumulation fits well with the success story of the Korean *chaebols* during the era of state capitalism. As noted in the previous chapters, without the exclusive institutional support of the state, the Korean *chaebols* would not be what they are today. During the authoritarian regime, protectionist policies enabled them to monopolize domestic markets, while suppressive labour policies helped them maintain a production system characterized by low wages and long working hours. Furthermore, the state provided dominant capital with various types of financial support, including tax reductions, preferential interest and exchange rates, direct subsidies, and exclusive access to foreign loans. All of these are typical examples of differential sabotage.

The so-called polarized growth after the 1997 crisis can be also understood in this light. The decrease in fixed-capital investment, the increase in job insecurity through labour flexibilization, and the intensification of the *chaebols*' unfair trade

practices against small- and medium-sized companies, which critical economists refer to as indicators of polarized growth, constitute “business as usual”—i.e., universal and differential means of industrial sabotage—geared to achieve differential accumulation. In this regard, it seems problematic for the advocates of nationalist corporatism to impute polarized growth specifically to financial capital. If this distinction is at all meaningful, we could say that the conscious limitation of industrial activities characterizes not only “financial capital” but also “industrial capital.” The latter is as unproductive as the former.

The foregoing does not mean that nothing has changed in the wake of the 1997 crisis. Indeed, both universal and differential industrial sabotage have been intensified and, consequently, social inequality has increased. (We delve into this polarization in the following sections.) In my view, the slowdown of the Korean economy, coupled with increased industrial sabotage, has to be understood in relation to the changing nature of differential capital accumulation. As shown in the previous chapter, during the 1990s the external-breadth regime that Korea’s dominant capital had adopted to augment its power during the era of state capitalism had reached its limit. During the years leading up to 1997, (1) the overall growth of the Korean economy slowed down; (2) the capital share of national income decreased rapidly, and (3) the *chaebols*’ differential profit dropped considerably. It can be said that the Korean political economy seems to have been moving rightward on the down slope in Figure 5.1. In my view, the intensification of both universal and differential industrial sabotage in the wake of the 1997 crisis should be understood as an attempt by Korea’s dominant capital to get back to the top segment of the arc, the optimal point for its differential accumulation. By limiting the pace of industrial activity, Korea’s dominant capital tried to reduce downward pressure on corporate income in general and on the profit share of dominant capital in particular. Let’s look at how successful this attempt was in the following section.

The Resurrection of Korea’s Dominant Capital

The term “crisis” in Chinese means danger and opportunity at the same time. Indeed, the 1997 crisis provided Korean dominant capital with a good opportunity to consolidate its power and redistribute social wealth upward. Korea’s *chaebols* as a whole stood on the brink of collapse in the aftermath of the crisis. Yet through the

restructuring process, they emerged stronger than ever before, even though some *chaebols* such as Daewoo and Kia went bankrupt and were dissolved or amalgamated into other business groups. In the post-1997 era, the influence of the *chaebols* on the government increased so conspicuously that it has become common to refer to Korea as “the Republic of Samsung.” Even the president of Korea said that “as power has been transferred from the government to the market, the government cannot make policies against the interests of the business world.”³ Indeed, the increase of dominant capital’s power over Korean society is expressed symbolically by the hike in its differential profit: the ratio of average profit between the top 30 *chaebols* and all corporations rose from 275 in the early 1990s to 5,933 in the late 2000s.

In the resurrection of the Korean *chaebols*, the following strategies adopted by the corporate-government coalition played a significant role: (1) socializing private debt into public debt; (2) undermining labour unions through mass layoffs and increasing labour-market flexibility; (3) introducing radical deregulation and liberalization; (4) providing very high incentives for foreign capital and the *chaebols* to attract investment; (5) privatizing the country’s most profitable state-owned enterprises.

Policymakers, propagating the inevitability of these pro-market policies, held that these policies would quicken economic recovery and revitalize the growth engine of Korea. It was also said that the benefits of economic growth would automatically “trickle down” to the underlying population. Indeed, the Korean economy has bounced back rapidly from the crisis. Yet there has been no trickledown effect at all; the benefits of economic recovery have been differentially distributed among various social groups, amplifying social inequality. In my view, the post-1997 restructuring process was designed to transform the regime of capital accumulation, thereby redistributing wealth and power upward. Economic recovery as such has not been the primary concern of the Korean ruling capitalist class. What has been more important for it is to overcome the limits of the external-breadth regime, a regime that they had pursued for a very long time and which had reached its boundaries. They seem to have found a way out of the crisis of differential accumulation that, I think, has intensified differential, and eventually also universal, industrial sabotage.⁴ The heightened universal industrial sabotage resulted in a slowdown in green-field

³Quoted from Rho Moo Hyun’s speech at the meeting to monitor the progress on the cooperation between large and small- and medium-sized firms.

⁴For more details about differential and universal industrial sabotage, see Nitzan and Bichler, 2009, pp.246-248. These concepts are also succinctly summarized in the previous section of this chapter.

investment, worsening job security, and, above all, increased income inequality. Let us now turn to examine the features of this new regime.

Differential Accumulation in a “Low-growth” Economy

Figure 5.2 shows the relationship between growth and profitability before and after pro-market policies in the wake of the 1997 crisis. The chart consists of two different series: real GDP growth and the capital-income share. The latter is measured by the corporate-profit share of national income. All series are expressed as three-year moving averages.

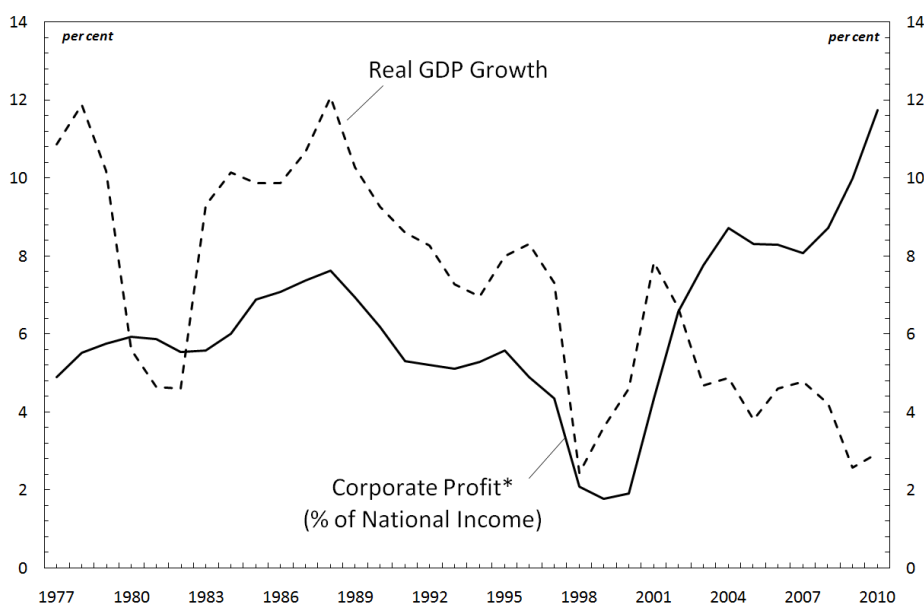


Figure 5.2 Capital Income and Economic Growth

*Corporate profit with capital consumption allowance and inventory valuation adjustment in the national income accounts.

Note: All series are expressed as three-year moving averages.

Source: Bank of Korea

Korea’s real GDP growth decreased sharply to negative 5.7 percent in 1998. It quickly rebounded, but to levels lower than those prior to the crisis. Between 2001 and 2010, the GDP growth rate averaged 4.2 percent annually, compared to 8.7 percent for the 1977-1996 period. By contrast, capital income, measured by the corporate-profit share of national income, has increased rapidly since the early 2000s.

It more than tripled from 4.2 percent in 2000 to 13.8 percent in 2010. The 10-year average capital-income share nearly doubled, from 5.2 percent during 1987-1996 to 9.2 percent during 2001-2010. In other words, while the pace of economic growth decelerated significantly, the income share of the Korean capitalists reached unprecedented levels.

This upward distribution of social wealth was led by Korea's dominant capital. This process can be verified by examining two concentration measures of corporate profits. One is the aggregate concentration of net profit, which measures the percentage share of a particular business group (i.e. the Korean *chaebols* here) in the relevant corporate universe. The other is the differential concentration of net profit, which represents the ratio between the average net profit of the *chaebols* and the average net profit of all corporations. Below, we examine each index in turn.

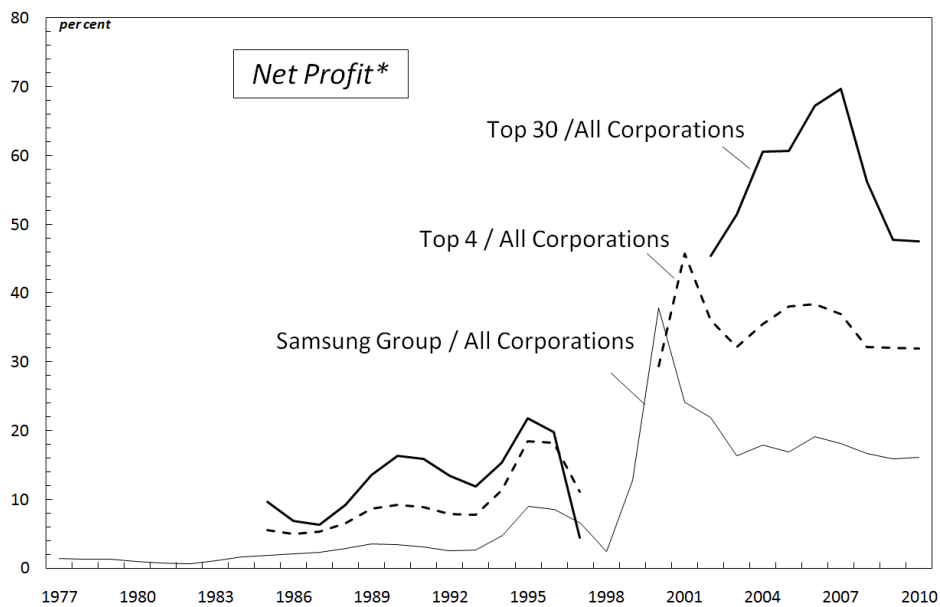


Figure 5.3 The Aggregate Concentration of Corporate Profits

*The ratio between the net profit of the *chaebols* and corporate profit (with capital consumption allowance and inventory valuation adjustment) in the national income accounts.

Note: All series are expressed as three-years moving averages. Periods during which either the *chaebol* groups' or overall corporate profits were negative are omitted.

Sources: Bank of Korea for the profit of all corporations; Fair Trade Commission for the net profit of the *chaebols*; Samsung 1998 and Samsung Online for Samsung's net profits (<http://www.samsung.co.kr/samsung/outcome/performance.do>).

Figure 5.3 shows three aggregate-concentration measures for net profit. The denominator in all measures is the aggregate net profit of all Korean corporations as estimated by the national income accounts. The numerator for the first index is the total net profit of the 30 largest *chaebols*, a proxy for Korea's dominant capital; for the second index, it is the net profit of the top four *chaebols*; and for the third index, it is the net profit of Samsung. The rising levels of aggregate concentration after the 1997 crisis are mindboggling. Over the ten years between 1987 and 1996, on average the top 30 *chaebols* accounted for 14.7 percent; the top four for 10.7 percent and Samsung for 4.4 percent of total net profit. These shares increased more than threefold between 2001 and 2010. During this period, the average percentage shares of the top 30, the top four, and Samsung were 55 percent, 34.2 percent, and 17.1 percent respectively.

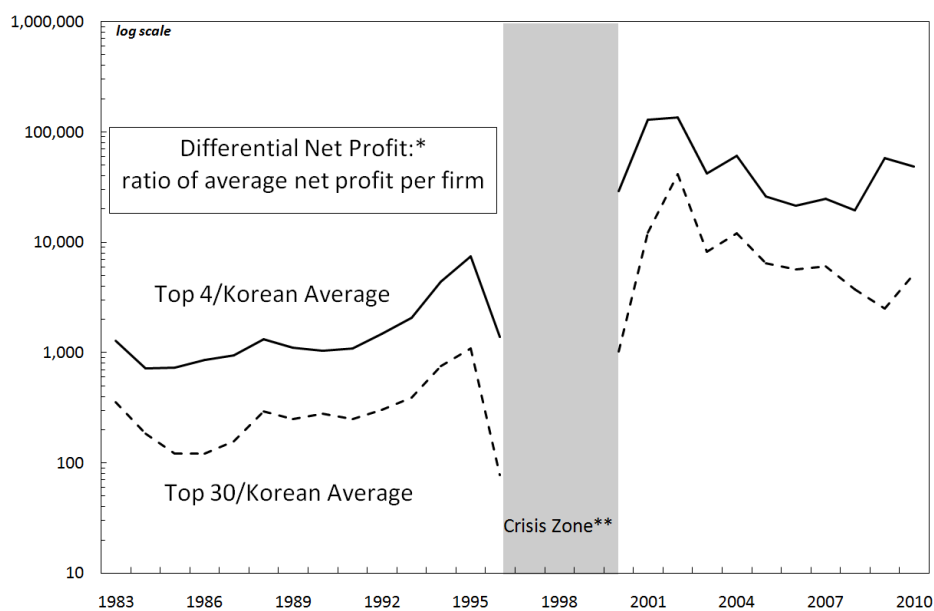


Figure 5.4 The Differential Concentration of Corporate Profits

* The ratio between the average net profit of the *chaebols* and the average net profit of all Korean corporations that are officially registered at the National Tax Service as limited-liability companies.

** The Crisis Zone is the period during which either the *chaebols*' profit or the overall corporate profit had negative values. Observations for this period are omitted.

Sources: Fair Trade Commission for the average profits of the *chaebols*; National Tax Service for the corporate average.

The differential concentration of net profit, shown in Figure 5.4, is far more alarming than aggregate concentration. The chart consists of two indices of differential

concentration: one for the top four *chaebols*, the other for top 30. As mentioned above, the indices are computed by dividing the average net profit of dominant capital by the average net profit of all Korean corporations (total corporate profit after taxes divided by the number of tax returns).⁵ The data shows that, in the early 1990s, the average profit of the top four *chaebol* groups was roughly 1,191 times larger than that of the average Korean firm: the former was 206 billion KRW; the latter was 173 million KRW. By the late 2000s, this ratio has risen to 29,838 (average profit of 7,141 billion KRW compared with 239 million KRW)—a 25-fold hike over the last twenty years. During the same period, the ratio of average profit between the top 30 *chaebols*⁶ and all corporations also rocketed, from 275 to 5,933—approximately a 22-fold increase.

The Transformation of the Regime of Differential Accumulation

Through the restructuring of the Korean political economy, dominant capital has succeeded in not only re-establishing its power but also making it stronger than ever before. The post-1997 restructuring process, in my view, was centred on the transformation of the regime of differential accumulation, a transformation that, as mentioned above, was inevitable for at least three reasons: (1) the earlier global shift of accumulation from depth to breadth, coupled with the transition from the Cold War to globalization; (2) the democratization process, catalyzed by the successful popular revolt of 1987; and (3) the exhaustion of external breadth (or green-field investment), a path that Korea's dominant capital had pursued since the early 1960s. Indeed, during the 1990s leading up to the 1997 crisis, Korean dominant capital suffered from downward pressure on prices and profit per employee as a result of its ongoing green-field investment. The group had to find a regime of differential accumulation that does not rely merely on expanding its employment faster than the average. At the same time, this new regime had to be compatible with the newly emerged global breadth.

Figure 5.5 shows that the attempt by Korea's dominant capital to find a new regime was quite successful. The chart plots the average profit per employee of the top 30 *chaebols* in comparison with that of the manufacturing sector. As illustrated in

⁵ All the values in this paragraph are expressed as three-year moving averages.

⁶ The average profit of the top 30 *chaebols* has risen from 47.5 billion KRW in the early 1990s to 1,420 billion KRW in the late 2000s.

the chart, the profit per employee of both dominant capital and the manufacturing sector increased significantly after the 1997 crisis. Over the eight years from 1988 to 1995, before the Korean political economy got into trouble, the profit per employee of the top 30 *chaebols* averaged 2.8 million KRW; the manufacturing average was 1.5 million KRW. During the eight-year period of 2001-2008, the former rose to 43.7 million KRW (a 15-fold increase) and the latter to 15.3 million KRW (a 10-fold increase). Yet the gap in the average profit per employee between dominant capital and the manufacturing sector widened: the ratio of the former to the latter increased by 54 percent, from 1.8 to 2.9.

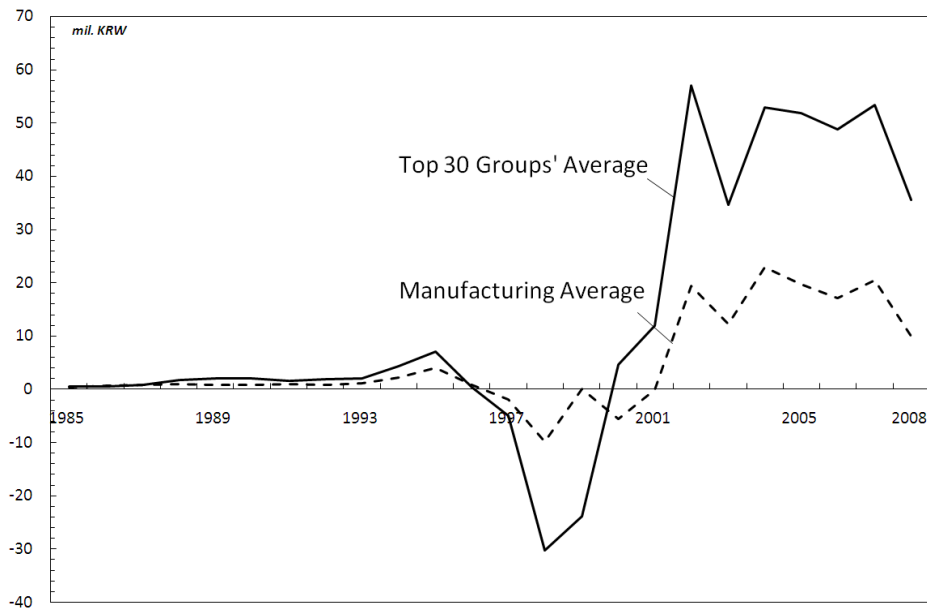


Figure 5.5 Comparison of Profit per Employee

Sources: Fair Trade Commission for the average profit per employee of the *chaebol* groups; Bank of Korea for the manufacturing average.

By contrast, Figure 5.6 shows that, in the wake of the 1997 crisis, differential accumulation by Korea's dominant capital has become less dependent on breadth. The chart represents the differential employment of three dominant-capital groups—Samsung, the top four, and the top 30 *chaebols*. The three indices of differential employment are computed by dividing the average number of employees of each group by the manufacturing average. The pace of Samsung's differential employment enables us to estimate how rapidly Korea's dominant capital has expanded its employment relative to the corporate average since 1970. At the time, the ratio of employment between Samsung and the manufacturing average was 254. By 1997, the

ratio had risen to 9,120. In other words, every year Samsung's employment grew 14 percent faster than that of the manufacturing average. Despite the difference in scale, the top four and the top 30 *chaebols* seem to have followed the same pattern as Samsung. Over a dozen years from 1985 to 1996, the ratio of employment between the top four *chaebols* and the manufacturing average grew at an annual rate of 10 percent. During the same period, the annual growth rate of the top 30 *chaebols* averaged 9 percent.

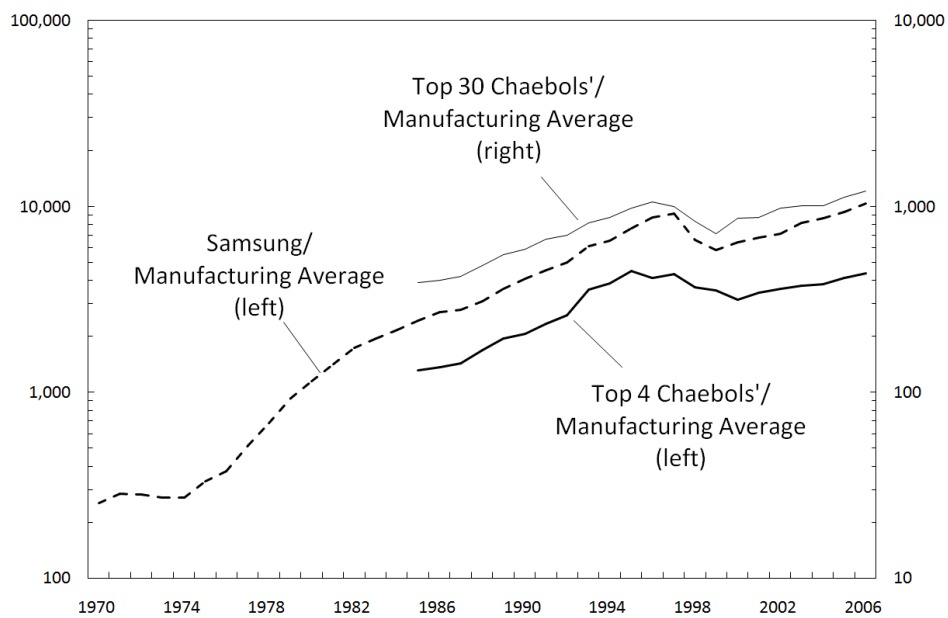


Figure 5.6 Differential Employment: The Ratio of the *Chaebols'* Average to the Manufacturing Average

Sources: Fair Trade Commission for the average employment of the *chaebols*; Bank of Korea for the manufacturing average.

The 1997 crisis marks a sudden U-turn in these trend growth rates of differential employment. Within two years, 360,000 workers were laid off by the top 30 *chaebols*; the top four *chaebols* accounted for a third of them. Since then, the differential employment of Korean dominant capital has increased and recently recovered to the level of 1997. Yet differential employment is no longer the focus of the *chaebols'* differential accumulation. At the moment, the *chaebols* are heavily criticized for not playing an active role in improving the employment situation in Korea.

The Transition to Market Capitalism

“Differential accumulation,” as Nitzan and Bichler hold (2009: 325, original emphasis), “is a power *creorder*, an ongoing struggle to restructure society against opposition.” The enormous expansion of the Korean *chaebols*’ differential profit shown above represents the transformation of various institutional arrangements and power relations among social groups. As mentioned below, the Korean corporate-government coalition radicalized the reform process of liberalization, deregulation, privatization, and labour flexibilization in the aftermath of the 1997 crisis. Through this restructuring, the Korean ruling class turned the tables on the underlying population. Since 1987, the emergence of organized labour and popular social movements had backed the ruling class into a corner. Ironically, the 1997 crisis was a blessing in disguise for the rulers. Forcing ordinary Koreans to bear the brunt of the crisis, they were able to redistribute power and wealth upwards.

Yet the “resurrection” of the Korean dominant capital does not mean simply that the old mode of power was restored; the very nature of the corporate-government coalition underwent fundamental changes. Above all, dominant capital has been trans-nationalized through the integration of ownership. Even though the development of Korean capitalism has been embedded in the global political economy from the very outset, until recently the core business groups were domestically owned. As a substantial part of the ownership fell into the hands of foreign investors after the 1997 crisis, the accumulation basis of dominant capital has increasingly grown global; at the same time, Korea’s dominant ruling capitalists have become integrated into the trans-national structure of *global absentee ownership*.

The trans-nationalization of dominant capital undermines the autonomy of the “nation state.” Korea’s state organs and institutions are also amalgamated into the global accumulation process that Nitzan and Bichler call a worldwide capitalist megamachine. Through various kinds of free-trade (and investment) agreements, legislative and policy changes are increasingly shaped by so-called global standards that reflect the demands of the global dominant capital. Furthermore, government policies become subordinate to the indicators of financial markets, which, to a large extent, move in tandem with the ups and downs of the global market. This subjugation, in turn, substantially weakens the effectiveness of domestic macroeconomic manipulations.

The central axis in the restructuring of power relations is the establishment of the market mechanism in every corner of society, a process that is often characterized as the retreat of the state. Indeed, as a result of the brainwashing “mantra” repeated by policymakers and mainstream economists, the term “free market” has become a sacrosanct ideal in Korean society, while state intervention has become something of a taboo. Yet it is highly doubtful that the advancement of free-market ideology marks the retreat of the state. First, according to Polanyi (1957: 141), the “*laissez faire* economy was the product of deliberate state action.” This observation still holds true in Korea and many other countries. Second, although the Korean government, by abandoning the Five-Year Economic Development Plan and disbanding the Economic Planning Board, retreated from direct interventionist policies, its influence on the differential accumulation of dominant capital has become stronger than ever. As financial markets have expanded enormously, government policies on issues such as labour relations, the minimum wage, tax cuts, exchange rates, interest rates, and free-trade agreements are almost instantaneously quantified into the pecuniary value of vendible ownership.

To sum up, the essence of Korea’s transition to market capitalism, in my view, is characterized not by *laissez-faire* but by the establishment of the ritual of *capitalization* as the *nomos* of society, a process that coincides with the liberalization of a market for vendible capitalist power. On the one hand, through this process the various fractions of Korea’s power bloc are subsumed into a coherent ruling class that sees the world through the single lens of the universal price architecture. On the other hand, corporations and government organs are integrated into the same mode of power, namely the ongoing process of differential accumulation on a global scale. All in all, the restructuring of power relations in the wake of the 1997 crisis has shifted the power balance in Korean society towards the ruling capitalist class, which shift is expressed quantitatively as the huge differential accumulation of trans-nationalized dominant capital. The remainder of the chapter examines this restructuring process of power in detail.

The Trans-nationalization of Korean Dominant Capital

Korea’s recent restructuring of power relations was catalyzed by the huge inflows of foreign capital that have accompanied the radical reform of liberalization and

deregulation. The influx of foreign investment into Korea has resulted in a rapid expansion of its financial markets, which in turn has made capitalist power more *vendible*. At the same time, as ownership has become increasingly trans-nationalized, Korea's mode of power has been amalgamated into the trans-national mega-machine of accumulation. Consequently, more and more state functions are now taken over and controlled by trans-nationalized dominant capital; Korean society has become increasingly responsive to the rise and fall of global financial markets and the power processes that these ups and downs represent.

In the wake of the 1997 crisis, the Korean government conceived the pursuit of foreign investment inflows as its most significant and urgent target. In order to attract foreign investors, the government completely liberalized the Korean currency and financial markets within a year. Portfolio investment in the stock and bond markets, the foreign takeover of Korean firms, and foreign investment in real estate were fully deregulated. Furthermore, the government, by enacting the Special Law for Boosting Foreign Investment, provided foreign investors with preferential tax treatment and commercial rent subsidies.

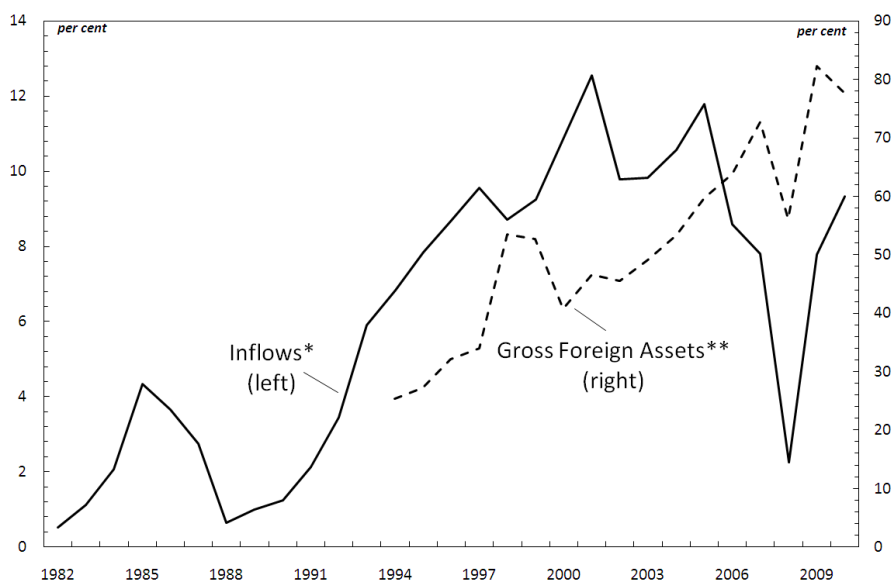


Figure 5.7 The Surge in Foreign Investment

*The ratio of direct and portfolio inflows to gross fixed-capital formation. The series is smoothed as three-year moving average.

**The market value of cash, deposits, loans, bonds, and equities owned by non-residents, expressed as a ratio to gross (nominal) GDP.

Source: Bank of Korea

Figure 5.7 shows the consequence of these attempts by the Korean government to attract foreign investment. The chart consists of two series: the annual inflows of foreign investment and the market value of gross foreign assets. The former comprise direct and portfolio investment, expressed as a percentage share of gross fixed-capital formation. The latter refers to the sum of cash, deposits, loans, bonds, and equities owned by non-residents, expressed as a percentage share of Korea's nominal GDP.

During the 1980s, the ratio of foreign-capital inflows to gross fixed-capital formation averaged only 1.8 percent. After the Kim Young Sam government initiated its Globalization Strategy, the ratio rose rapidly. In 1996, a year before the financial crisis, it stood at 8.7 percent. As the Korean government fully liberalized its capital account, the inflow of foreign investment increased further: by 2001, its value reached 12.5 percent of gross fixed-capital formation. Consequently, the value of gross foreign assets also increased rapidly. Between 1994 and 2009, the market value of foreign assets as a percentage share of Korea's nominal GDP more than tripled, from 26 percent to 87 percent.

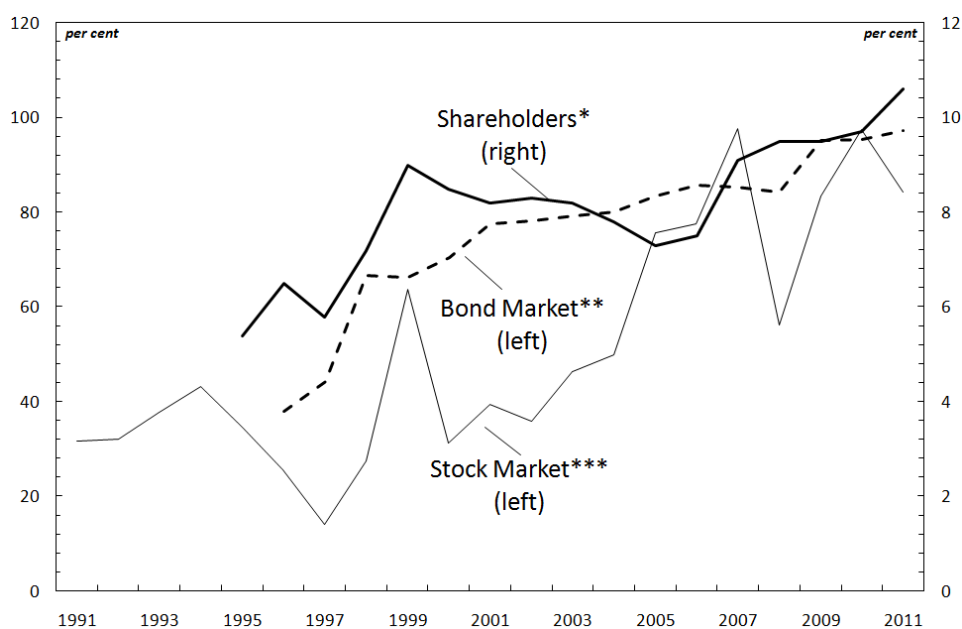


Figure 5.8 The Rapid Growth of Korea's Financial Markets

*The ratio between the total number of shareholders in the Korean stock market and the overall population.

**The ratio between the total value of listed bonds and nominal GDP.

***The ratio between total market capitalization and nominal GDP.

Sources: Bank of Korea; Korea Exchange.

The huge inflows of foreign investment led to the rapid expansion of Korea's financial markets. As we can see from Figure 5.8, over the 20 years since Korea opened its stock markets to foreign investors, the size of the market, measured by the ratio of total market capitalization to Korea's nominal GDP, has grown by a factor of more than 2.5—from 32 percent in 1991 to 84 percent in 2011. The expansion of the stock market coincided with the growth of the bond market. The ratio between the total value of listed bonds and Korea's nominal GDP increased from 38 percent in 1996 to 97 percent in 2011. The number of stock-market participants also grew rapidly. In 1995, people directly participating in the stock market accounted for 5.4 percent of the whole population; the figure had grown twofold to 10.6 percent by 2011.

Drastic as it was, the rapid expansion of financial markets coupled with the huge inflows of foreign capital was by no means particular to Korea. During the 2000s, these features were common in many other countries. On a global scale, “foreign ownership of government bonds increased from 11 percent in 1990 to 31 percent in 2006, and in corporate bonds from 7 percent to 21 percent” (Farrell et al, 2008: 73). Over the same period, the size of the world's financial assets—including equities, private and government debt securities, and bank deposits—as the ratio of financial assets to global GDP rose from 201 percent to nearly 350 percent (ibid: 10). This increase suggests that the neo-liberal restructuring of the Korean political economy has to be understood as part of a broader global transformation process—that is, of *globalization*.

From the perspective of capital as power, the nature of globalization is “the capitalization of power on a global scale” (Nitzan and Bichler, 2009: 350). As noted in the previous chapter, the recent wave of capitalist globalization represents a shift in the focus of accumulation from depth to breadth. This new global breadth regime is characterized by high green-field investment in emerging markets and worldwide cross-border mergers and acquisitions, especially among advanced economies. Through the spatial integration of ownership, capital has gradually lost its national identity. Furthermore, “state organs and institutions from different countries” are incorporated “as components of a worldwide mega-machine, called transnational accumulation” (Nitzan and Bichler, 2002: 297).

The rapid expansion of Korea's financial markets coupled with the enormous inflows of foreign investment is to be understood as part of this trans-nationalization of ownership and accumulation. Korea's “opening” to world markets itself was not at

all new. It began not in the late 1990s, but more than half a century ago, when Korea was subsumed into the US-led world capitalist system. As noted in Chapter 3, Korea has been integrated in the global political economy from the very outset of its capitalist development. Not to mention the export-oriented character of the Korean economy, the financing for rapid industrialization during state capitalism heavily relied on overseas loans. Yet until recently, foreign ownership of Korean companies in general and of the core business group in particular had been strictly limited. While the differential accumulation of dominant capital was greatly conditioned by the global political economic circumstances, the influences were external and indirect.

Since the early 1990s, the national identity of Korean corporations, especially of the core business groups, was gradually diluted. By the early 2000s, it was no longer possible to refer to dominant capital as a “Korean” business group. As we can see from Figure 5.9, the foreign-ownership share of the listed corporations belonging to the top 10 *chaebols* accounted for 30 percent in 1998.

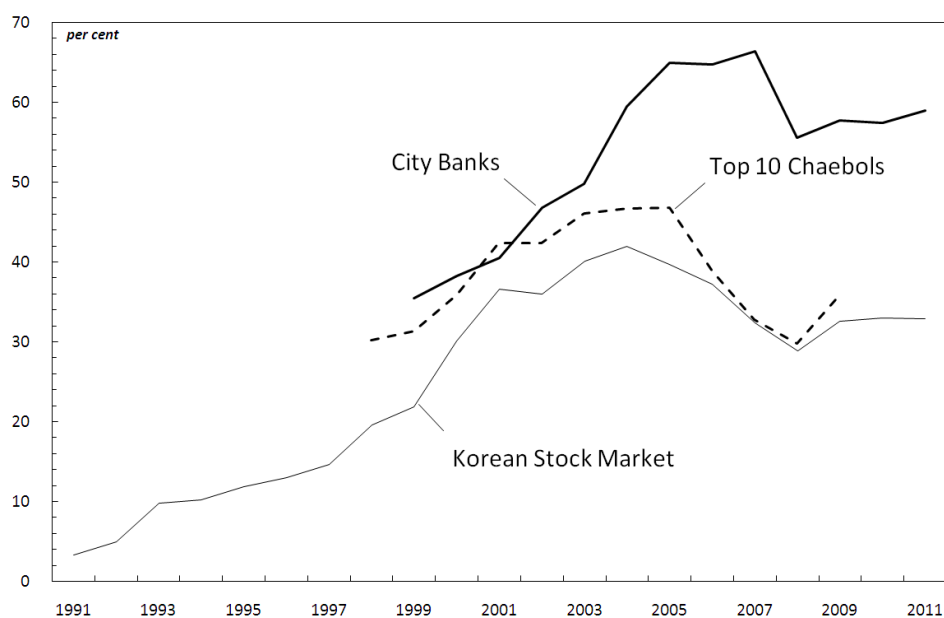


Figure 5.9 The Percentage Share of Foreign Investors in the Korean Business Universe in Terms of Market Capitalization

Sources: Korea Exchange for the foreign share of the Korean stock market; Financial Supervisory Service for foreign ownership in the banking sector during 2007-2011; D. H. Kim, 2007 for foreign ownership in the banking sector during 1999-2006.

At its 2005 peak, foreign ownership was 47 percent. Although data before 1998 are not available, the pace of the trans-nationalization of the core business groups can be

estimated from the trend growth rate of overall foreign-ownership levels in the Korean stock market. In 1991, foreign ownership accounted for only 3.3 percent of Korea's stock-market capitalization. By 2004, the value of foreign ownership had increased to 42 percent of the market total. From 1991 to 2004, the foreign share of the Korean stock market increased at a compounded average rate of 21.6 percent per year.

The high level of foreign ownership in the banking sector symbolically shows the transition from state capitalism to market capitalism. During the early 1980s, virtually the entire Korean banking sector was under state control. As statist developmentalism argues, this "public" banking system played a central role in channelling resources into the industrial sector, thereby promoting rapid economic growth. Now though, the banking sector is in the hands of foreign investors: as of 2011, the foreign-ownership share of the seven major commercial banks was about 60 percent.

The Trans-national Fusion of Vested Interests

The increasing foreign ownership of the core business group provoked a backlash against foreign investment. Interestingly, anti-foreign-investment campaigns were initiated not by the Korean ruling capitalists who might lose their control over the Korean political economy, but by the advocates of national corporatism in the progressive camp. As noted above, the latter held that foreign investors, pursuing nothing but short-term profits and high dividends, would drain a huge amount of national wealth and severely weaken Korea's growth engine. It is true that corporate-dividend disbursements in general and foreign-investment income in particular have increased enormously since the 1997 crisis. Yet the advocates of national corporatism seem to have ignored the other side of the coin: in the recent globalization process, capital and investment income do not flow one way, but two ways: for instance, the sum of Korea's overseas direct and portfolio investment increased from 1 billion USD in 1992 to 76 billion USD in 2007, while foreign direct and portfolio investment in Korea rose from 7 billion USD to 32 billion USD during the same period. Furthermore, they overlooked that Korea's balance of investment income account has improved rather than deteriorated during the 2000s. The point at issue is not that the liberalization of the capital account has promoted Korea's "national interest" but that

neo-liberal globalization no longer fits into the “macro-statist” framework. The increasing trans-nationalization of ownership makes it hard to identify the national interest itself. If the “benefits” of globalization are analyzed in terms of the differential accumulation of capital instead of the national interest, the reason that Korea’s ruling capitalists do not oppose but actively pursue the liberalization of capital movements is easily figured out.

Two-Way Flows of Capital

Figure 5.10 illustrates one of the characteristic features of the recent globalization, that is, the two-way flows of capital. It shows the net capital flows (i.e. outflows minus inflows) of 34 emerging markets and Korea since the early 1990s. Capital flows are comprised of direct investment, equity and debt securities, lending, deposits, and foreign reserves. The net capital flows of 34 emerging markets are based on data provided by McKinsey Global Institute (Farrell et al. 2008: 54), which are calculated by adding up the net capital flows of each country.

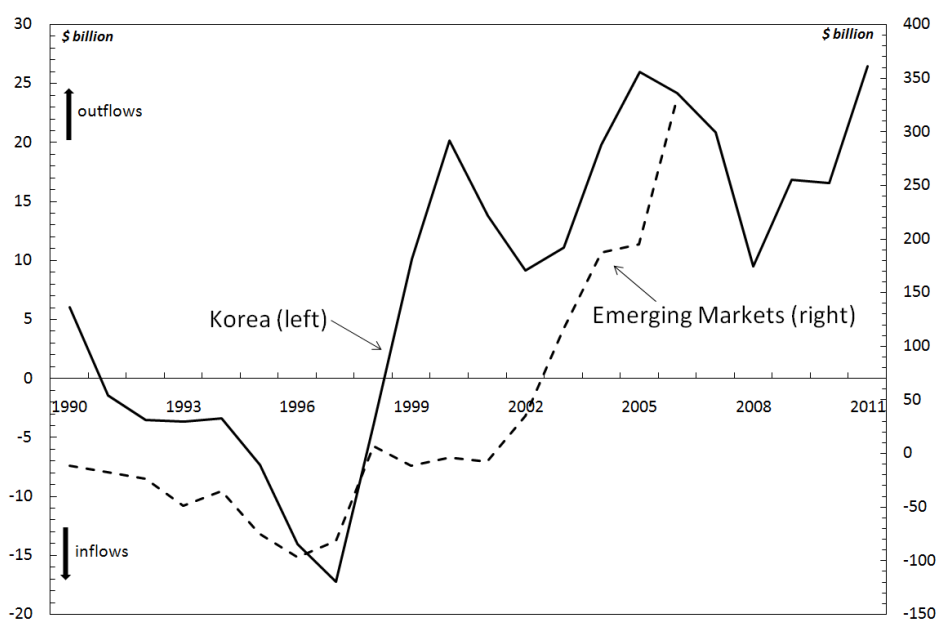
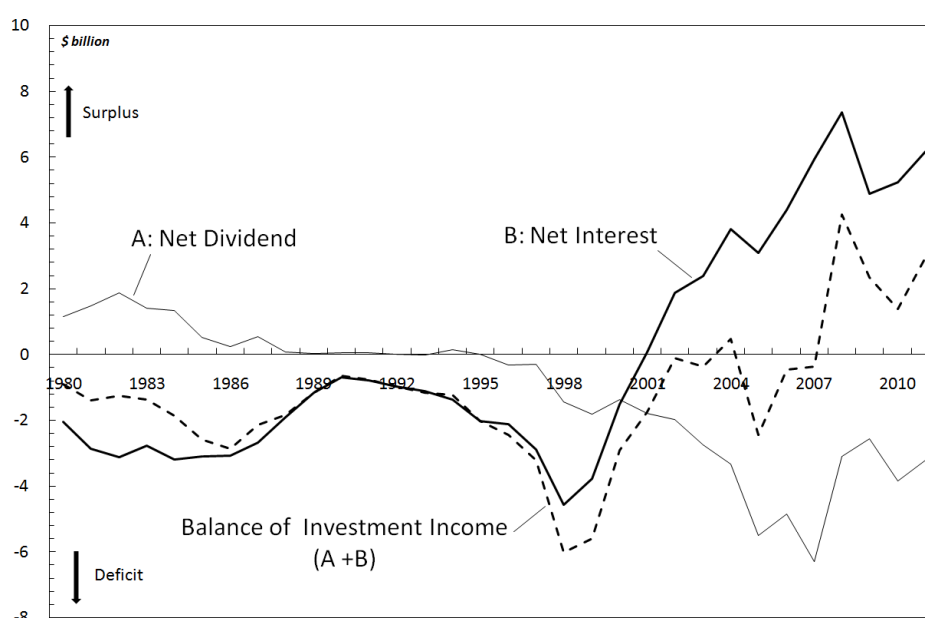


Figure 5.10 The Net Capital Flows of Korea and 34 Emerging Markets

Note: Capital flows consist of direct investment, equity and debt securities, lending, deposits, and foreign reserves. Net capital flows are capital outflows minus capital inflows. The series of Korea’s net capital outflows is smoothed as a three-year moving average.

Sources: Bank of Korea for Korea’s net capital flows; Farrell et al. 2008: 54, Exhibit 2.13 for the net capital flows of the 34 emerging markets.

Contrary to popular perception, emerging markets have become net capital exporters in the 2000s. The amount of net capital flows from emerging markets to the rest of the world has increased since 2002, when emerging markets turned into net providers of capital for the first time: net capital flows rose from \$35 billion in 2002 to \$332 billion in 2006. Korea is one of the major net capital exporters among emerging markets. Over the first decade of the 2000s, Korea's net capital flows averaged \$18 billion per year.



5.11 The Balance of Korea's Investment Income Account

Source: Bank of Korea

It also has to be noted that, unlike in the period prior to the 1997 crisis, since the crisis Korea has been running investment income account surpluses. Fig 5.11 shows the balance of Korea's investment income account since the early 1980s, which balance is further divided into net dividend income and net interest income. As the advocates of national corporatism have pointed out, Korea's dividend payments to foreign investors have increased enormously in the post-1997 period. Korea paid on average \$5.2 billion in dividends per year to foreign investors during the 2000s, while it had paid \$121 million in the 1980s and \$471 million in the 1990s. As a result, Korea suffered huge deficits in its net dividend-income account in the 2000s—on average \$3.4 billion per year during the 2000s.

However, Korea's surpluses in the net interest income account have more than amply compensated for its deficits in the net dividend income account. Korea, for the first time, recorded a \$59 million net interest income surplus in 2001. Since then, its interest income surplus has risen rapidly. At its 2008 peak, it amounted to \$7.5 billion. All in all, Korea's investment income account balance did not deteriorate but improved in the post-1997 period: from a \$6 billion deficit in 1998 to a \$4 billion surplus in 2008. It seems that the increase of Korea's foreign-currency reserves played a significant part in improving its balance of investment income. The foreign-currency reserves have risen from \$48 billion in 1998 to \$298 billion in 2011. It is known that much of these reserves are invested in US Treasury securities, from which Korea earns interest income.

The Shift of Focus from Interest to Dividends

Even when we look at the gross income of foreign investors, the leakage of Korea's national wealth (relative to GDP, shown in Figure 5.12) does not seem to have increased under "free-market" capitalism relative to the situation under "state capitalism." In my view, Korea's transition to a market economy is not characterized by an increase in foreign-investment income so much as it is by changes in the ratio between income components, i.e. dividends and interest. These changes resulted from the financial restructuring of the Korean business universe—a shift from a system of a high debt-to-equity ratio to that of a low debt-to-equity ratio.

As we can see from Figure 5.12, the investment income of foreign investors (outflows from Korea) in the 1980s, as a share of GDP, was much higher than in the post-1997 crisis period. While its 10-year average in the 1980s was 3.5 percent, in the 2000s it was 1.4 percent. This measure suggests that, in relative terms, more wealth was drained out of Korea under state capitalism than under free-market capitalism. What increased is the share of dividends in overall investment income. Dividend income accounted for merely 3.6 percent of foreigners' aggregate investment income on average in the 1980s. It rose to 9.9 percent in the 1990s and spiked to 45.8 percent in the 2000s.

This change coincided with the financial restructuring of the Korean corporate universe. One of the characteristic features of Korean capitalism in the past was its high debt-to-equity ratio. According to the Bank of Korea, the 10-year average

aggregate debt-to-equity ratio of Korean firms was 3.2 in the 1970s, 3.6 in the 1980s, and 3.2 in the 1990s. It dropped to 1.4 in the 2000s.

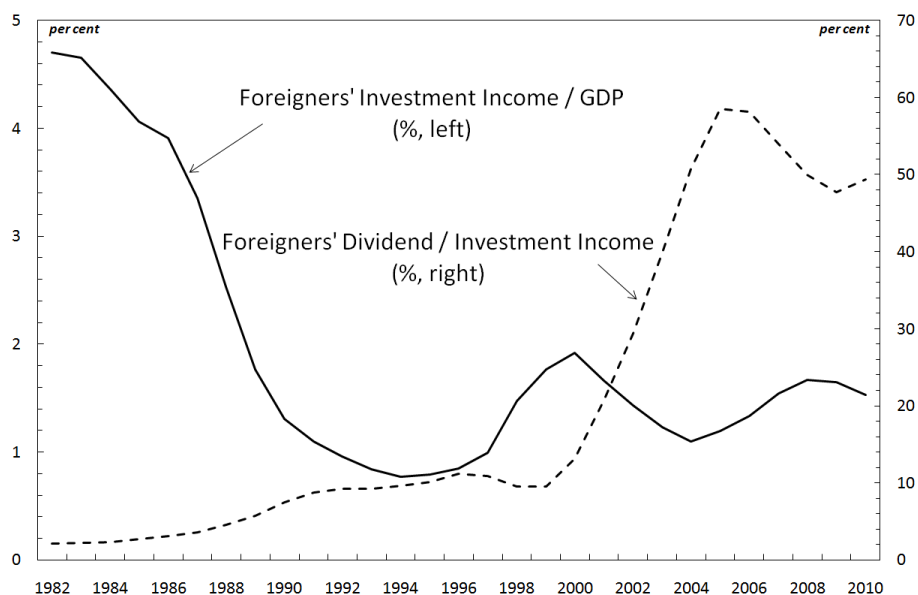


Figure 5.12 A Growing Leakage of National Wealth?

Note: All series are expressed as three-year moving averages.

Source: Bank of Korea.

In the aftermath of the 1997 crisis, the recapitalization and refinancing of businesses became inevitable. By converting much of their debt into equity and by issuing new equity, Korean firms in general and the *chaebols* in particular dramatically lowered their debt-to-equity ratio. This financial restructuring was a strategy chosen by Korean dominant capital to survive the 1997 crisis and, at the same time, meet the requirements of global dominant capital, i.e. the liberalization of ownership.

All About Differential Accumulation

Contrary to the argument made by the advocates of national corporatism, as far as the balance of the investment income account is concerned, Korea has turned out to be a “beneficiary” rather than a “victim” of neo-liberal globalization. This observation is not intended to imply that Korea’s national interest has been promoted by liberalization. Rather, the point is that most advocates of national corporatism have failed to grasp the nature of globalization, i.e. that the trans-nationalization of

ownership and accumulation makes it difficult and perhaps impossible to talk about “the national interest,” let alone “domestic capital.” “When ownership crosses a border,” Nitzan and Bichler (2009: 350) note, “it alters the organization and institutions of power on both sides of that border and, eventually, the significance of the border itself.” Korean dominant capital has increasingly been incorporated as part and parcel of global dominant capital. Consequently, Korea’s ruling capitalists, like their global counterparts, come to see the world through the lens of the capitalization formula. This transition, I think, is the essence of Korea’s transition to free-market capitalism.

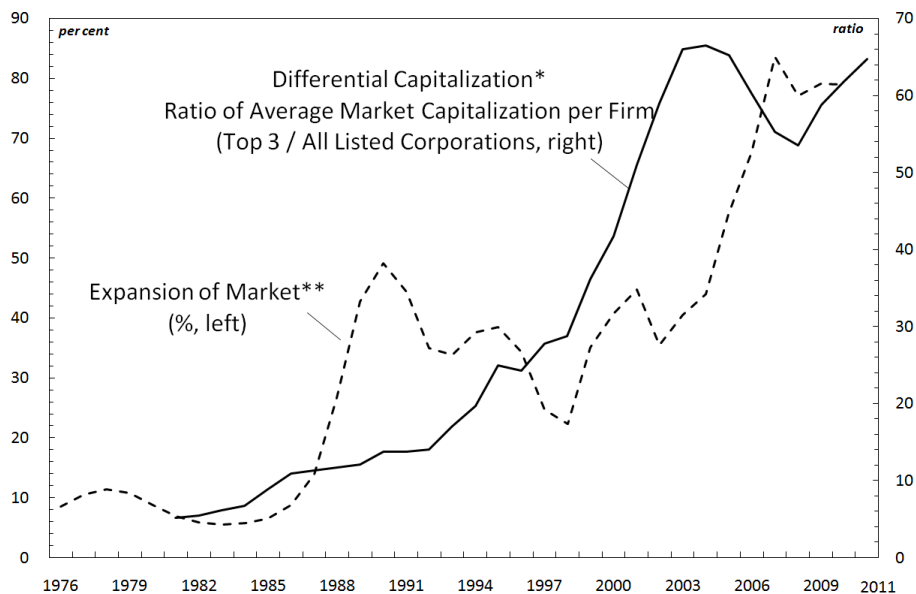


Figure 5.13 The Rapid Expansion of the Stock Market and Differential Accumulation

*The ratio between the average market capitalization of the top three corporations—Samsung Electronics (listed in 1976), Hyundai Motor (listed in 1974), and Posco (listed in 1988)—and the average market capitalization of all listed corporations.

** The ratio between the market capitalization of all listed corporations and GDP.

Note: All series are expressed as three-year moving averages.

Sources: KIS-VALUE for the average market capitalization of the top three corporations during 1981-2009; Korea Exchange for the top three corporations during 2010-11; Bank of Korea for the corporate average.

Thus, in my view, an analysis of differential capitalization by dominant capital in the Korean stock market will help us understand the nature of neo-liberal globalization. Figure 5.13 shows that the expansion of the stock market, which was catalyzed by the liberalization of the capital account, coincided with differential capitalization by the

core business group. The chart consists of two different series—the ratio between the market capitalization of all listed corporations and GDP, and the ratio of the average market capitalization of the top three corporations to the average market capitalization of all listed companies.

The value of the Korean stock market was equivalent to merely 10 percent of GDP in the late 1970s. By 2010, this ratio had increased 10-fold to 100 percent of GDP. This rapid expansion was led by the inflows of foreign portfolio investment, which were centred on the core business group. As noted above (see Figure 5.9), foreign ownership of the listed corporations belonging to the top 10 *chaebols* accounted for 47 percent at its 2005 peak.

This trans-nationalization of Korean dominant capital coincided with its massive differential capitalization. For example, the ratio of the average market capitalization of the top three corporations—Samsung Electronics, Hyundai Motor, and Posco—to the average market capitalization was only 5 in the early 1980s. By 1995, when the Korean stock market was partially opened to foreign investors, the ratio had risen to 30. In the wake of the 1997 crisis, the differential capitalization of the top three listed corporations rose further. At its 2009 peak, their average market value amounted to 72 times the market average. This increase denotes that the differential power of the core dominant capital in the late 2000s was 14-fold greater than in the early 1980s.

Due to the lack of available data, it is not possible to show the differential capitalization of all the major *chaebols* before the 1997 crisis. Nevertheless, it is possible to show that the presidents (i.e. primary owners) of the top 10 *chaebols* have made enormous fortunes in the post-crisis restructuring process through differential capitalization. Figure 5.14 illustrates the differential capitalization of the top 10 Korean *chaebols* and growth in the market value of the stockholdings owned by the presidents of the groups after the 1997 crisis.

As the Korean economy emerged from the crisis and massive foreign investment flowed in, their differential power also rose sharply. Specifically, the average capitalization of the top 10 *chaebols* in 1998, a year after the 1997 crisis, was 19 times the capitalization of the average listed company (3.5 trillion KRW vs. 184 billion KRW). By early 2011, this ratio has risen to around 48 (63.6 trillion KRW vs. 1.3 trillion KRW), a 2.5-fold increase in the differential power of a typical dominant-capital group over a dozen of years.

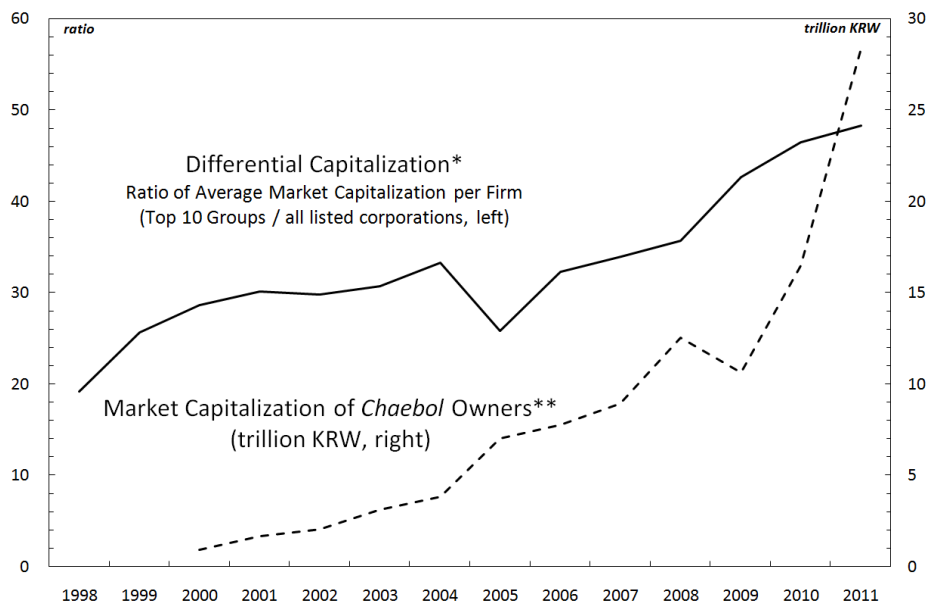


Figure 5.14 The Differential Accumulation of the Top 10 *Chaebols*

* The ratio between the average market capitalization of the top 10 *chaebols* and the average market capitalization of all listed corporations.

** The market value of the stocks owned by the presidents of the top 10 *chaebols*.

Sources: Korea Exchange for the market capitalization of the top 10 *chaebols* and their owners' stockholdings; Bank of Korea for the average capitalization of all listed companies.

The aggregate concentration of Korean dominant capital, i.e. the percentage share of the top 10 *chaebols* in the Korean stock market in terms of market capitalization, also rose from 25.7 percent to 59.3 percent over the same period. It is the *chaebol* families more than anyone else that have benefited from this differential capitalization. The market value of the stocks possessed by the primary owners' families as a whole increased from 937 billion KRW in 2000 to 28 trillion KRW in 2011—a more than 30-fold increase!

In addition to huge capital gains, the primary owners of the top 10 *chaebols* have also earned enormous dividend income in the post-1997 period. Figure 5.15 illustrates total dividend payments from companies listed on the Korean stock market, dividend payments to foreign investors, and dividend payments to the primary owners of the top 10 *chaebols*. The aggregate dividend payments of all listed companies have increased from 3.6 trillion in 2001 KRW to 12 trillion KRW in 2007.

Due to the 2008 global financial crisis, the growth in dividend payments appears to have reached a plateau. Nevertheless, in 2011, companies listed on the

Korean stock market managed to pay 11 trillion KRW in dividends to their shareholders. By contrast, the dividend income of the primary owners of the top 10 *chaebols* has kept growing through the 2008 global crisis. Their dividend income rose from 31 billion KRW in 2001 to 108 billion KRW in 2007, and further to 178 billion KRW in 2011—a six fold increase, compared to their dividend income in 2001.⁷

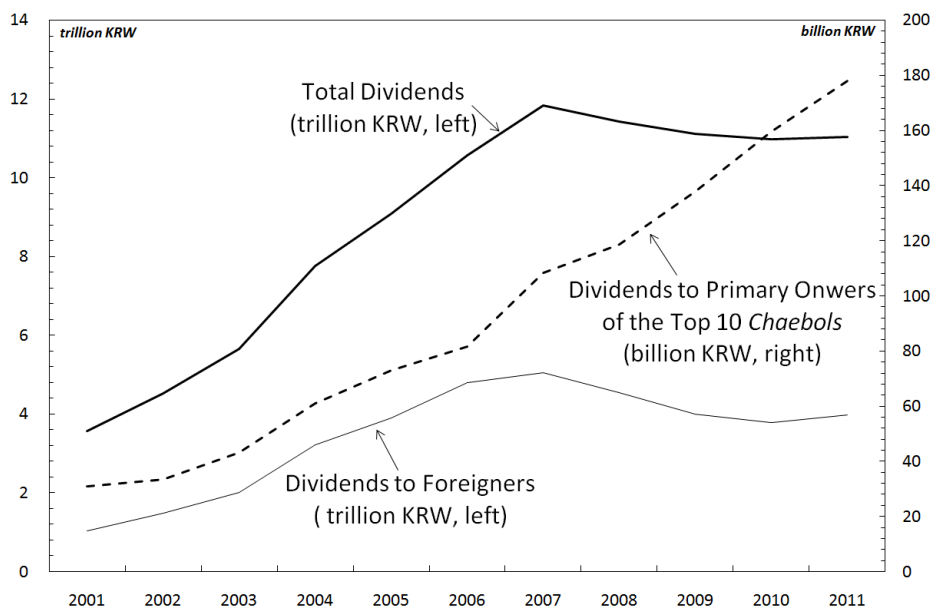


Figure 5.15 The Distribution of Corporate Income

Note: Series are smoothed as three-year moving averages.

Sources: Korea Exchange for total dividends and dividends to foreigners; Chaebol.Com for dividends to the presidents of the top 10 *chaebols* (<http://www.chaebol.com>).

The advocates of national corporatism have argued that the rapid increase in dividend payments during the 2000s was led by foreign investors who were interested in nothing but short-term profit. Indeed, dividend payments to foreign investors have a trend of growth similar to that of the total dividend payments. In 2001, 1 trillion KRW in dividends was paid to them; 5 trillion KRW in 2007; and 4 trillion KRW in 2011. However, in my view, national corporatists' diagnosis of the cause is not accurate. They have not taken into account the massive increases in the profit and

⁷The reason that dividends to the presidents of the *chaebols* have kept rising while those to foreigners have levelled off since 2007 can be found in the increase in the number of shares owned by the former. According to the Korean Exchange, during 2007-2011, the number of primary owners' stocks increased by 46.7 percent, from 1,220,000 to 1,790,000. Over the same period, those stocks' market value rose from 8.9 trillion KRW to 28 trillion KRW.

market value of the Korean business universe during the 2000s. If dividend payments are measured relative to corporate profits and market values, we may have a very different conclusion. There are two ways to measure the level of dividends in relative terms: one is the ratio between dividend payments and net profits; the other is the ratio between dividend payments and market values. According to the data given by the Bank of Korea, Korean firms' propensity to pay dividends during the neo-liberal restructuring process has decreased rather than increased. The 10-year average ratio between manufacturing companies' dividend payments and net profit in the 1980s was 32 percent. It dropped to 24 percent in the 1990s and to 19 percent in the 2000s. The 10-year average ratio between the dividend payments and market value of all listed companies has also decreased from 5.5 percent in the 1980s to 1.9 percent in the 2000s.

It seems that the statist framework premised on the dichotomy between "productive domestic industrial capital" and "speculative foreign financial capital" has become untenable. To begin with, the advocates of this dichotomy have a hard time defining "productive capital," let alone identifying it in practice. The position taken in this thesis is that "all capital is finance, and only finance." Furthermore, capitalist competition and alliances are not necessarily shaped by nationality. In my view, dichotomy advocates fail to see the trans-national fusion of vested interests through the globalization of ownership and accumulation. The huge increase in dividend payments in absolute terms during the 2000s does not seem to have originated from a difference in nature between "financial capital" and "industrial capital," but from the differential accumulation of dominant capital and the trans-nationalization of corporate ownership. On the one hand, as the barriers to foreign ownership of domestic stocks were gradually lifted beginning in the early 1990s, foreign investment in the Korean stock market rose and, consequently, the share of dividends in foreign-investment income has increased in proportion to the relative decrease of the share of interest. On the other hand, the rapid expansion in the differential profit of dominant capital noted earlier (see Figures 5.3 and 5.4) led to the increase of dividend income in the absolute terms. It seems that Korea's ruling capitalists, by incorporating themselves into the structure of global absentee ownership, have succeeded in expanding their differential wealth and power.

The Free Market, the State, and Social Polarization

As Korean financial markets have expanded rapidly, so-called market discipline has permeated Korean society. Now, virtually all the processes of production and reproduction are mediated through the market mechanism. Market discipline, which is premised on “the survival of the fittest,” has brought about increases in the disparity of power and wealth among social groups. Note, however, that the expansion of market ideology does not necessarily mean the retreat of the state. The Korean government played a role as important as ever in the upward redistribution of wealth and power in the post-1997 period, which, in turn, rigidified the dual structure of the Korean political economy and widened the wage gap within the working class. And above all, without the socialization of private debts in the aftermath of the 1997 crisis, many *chaebols* would not exist today, let alone have boosted their differential accumulation. The Korean government provided a 160 trillion KWR bailout package to businesses. Furthermore, neo-liberal reform was not merely a product of external pressure, but also of “deliberate state action.” As the mindset of Korean bureaucrats and politicians became increasingly subject to the ritual of capitalization, the state, of its own accord, set the direction of social and institutional changes toward neo-liberal globalization. It also has to be noted that the Korean legal system, even after democratization, is very lenient towards white-collar crimes: *chaebol* families indicted for embezzlement, fraud, tax evasion, and insider trading are rarely sentenced to jail terms; instead, they are usually ordered to do community service. According to the research institute Chaebol.Com, during the period of 1990- 2011 the seven presidents of the top 10 *chaebols* were sentenced to 22 years and 6 months’ imprisonment in total, but none of them was actually put behind bars.

Increasing Social Inequality

Policymakers and mainstream economists kept claiming that the self-regulating mechanism of the free market would make the Korean economy more efficient and its society fairer and more equitable. That was the rationale for the neo-liberal reforms. Yet Korean society has moved in the opposite direction. As we have examined, the market reforms have culminated in the massive concentration of ownership and power in the hands of the trans-nationalized dominant capital. This process, in turn, has resulted in the intensification of inequality in Korean society at large.

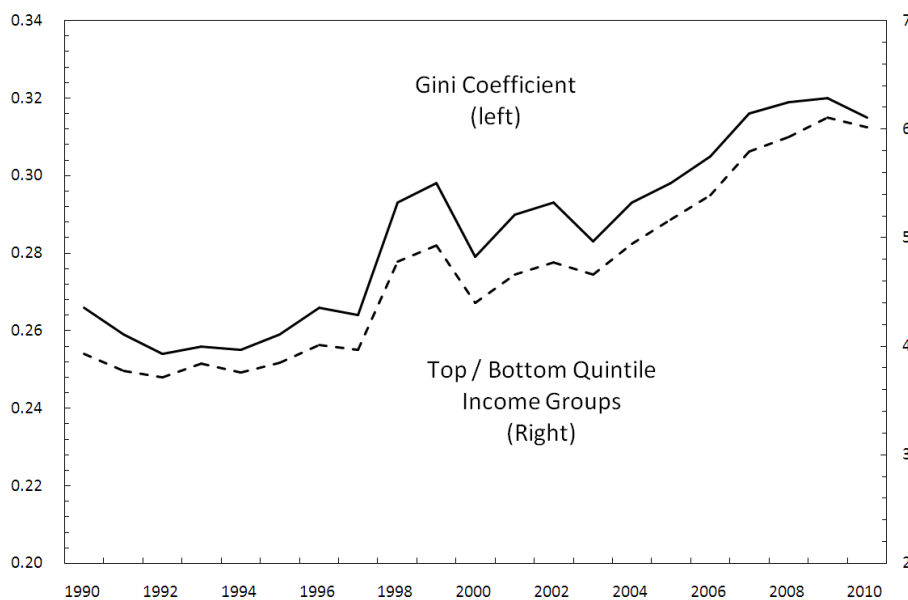


Figure 5.16 Intensifying Social Inequality in Korean Society

Source: Statistics Korea

Figure 5.16 shows that the neo-liberal restructuring of the Korean political economy since the early 1990s, and especially after the 1997 crisis, has coincided with increasing social inequality. The chart consists of two of the most commonly used inequality indexes—the Gini coefficient and the ratio of income between the highest and the lowest quintiles. Both series are based on the market income of households with two or more family members in urban areas. In the early 1990s, the three-year moving average of the Gini coefficient for Korea was 0.258. By the late 2000s, it had risen by 21 percent to 0.31. During the same period, the ratio of income between the highest and the lowest quintiles had increased from 3.8 to 5.7, which means that the gap between the rich and the poor has widened by 50 percent.

From the perspective of capital as power, this increasing inequality is a “natural” result of the expansion of the free-market. The reason is simple: the market, this thesis argues, is not a self-regulating mechanism but a power mechanism. In the real world, there is no such thing as a “free” market, which connotes an “economic” sphere independent of political relations. The “free” market exists only in mainstream economics textbooks. In reality, the market is not characterized by perfect competition, perfect information, price takers, free entry and exit, or equal access to technology. The prevailing culture in the market is to set up barriers to market entry,

to limit access to technology (e.g. patents), and to manipulate prices (e.g. predatory pricing, price cartels, or tacit collusion).

Mainstream economists err in over-emphasizing the centrifugal forces and neglecting the centripetal forces of the capitalist market. On the one hand, historically, as the centrifugal forces of capitalism have increasingly commodified social relations and subsumed other forms of power, they have brought more and more social processes of production and reproduction into the orbit of the capitalist market. On the other hand, by “coalescing individual capitalists into a corporation, and corporations into corporate alliances,” the centripetal forces of capitalism counteract to the centrifugal forces of excessive competition and excess capacity, which may put downward pressure on profits. “Only to the extent that dominant capital is able to retain and augment its exclusive power against these lesser capitals, keeping them ‘out of the loop’, can the capitalisation process... be sustained” (Nitzan and Bichler, 2002: 40-41).

The formation of the Korean *chaebols* coupled with the rapid expansion of a breadth regime is a good example of the interaction of centripetal and centrifugal forces in the market. Over the time, the ongoing interaction of these two forces consolidated the Korean political economy into a rigid dual political economy (see Chapter 2). To reiterate the point, the core of this structure consists of big business and organized labour. The periphery is comprised of small enterprises and unorganized workers. Although this polarization predates the 1997 crisis, the 1997 restructuring served to widen the gap between the core and the periphery. Not only the asymmetric relationship between big and small businesses, but also the divergence in status and income within the working class was aggravated further.

The State and the Dual Political Economy

After the 1997 crisis, suppliers and subcontractors have increasingly complained that dominant capital forces them to endure unfair transaction practices, including the supply of goods and services at “unjustly” low prices, intentional delays of payment, concerted refusal to deal, and unfair transaction terms.⁸ The business environment for

⁸ For example, the Fair Trade Commission recently accused Samsung Electronics of the illegal unilateral cancellation of parts-purchase contracts (daily news briefing, May 23, 2012: <http://www.ftc.go.kr>). From January 2008 to November 2010, according to the Fair Trade Commission, Samsung Electronics terminated 28,000 purchasing contracts without any justification. In most of the cases, the goods that Samsung Electronics had ordered had already been prepared when it cancelled the contracts.

small- and medium-sized enterprises has deteriorated so much that even the incumbent conservative president, Lee Myung Bak, and the ruling party have promised to tackle unfair transaction practices between big business and small- and medium-sized enterprises.⁹

Yet it is highly doubtful that the Korean government will ameliorate, let alone solve, the problem, because it is the state that actively created Korea's dual political economy in the first place. The formation and expansion of the "oligarchy" of the Korean *chaebols* would not have been possible without the exclusive institutional support of the state, which introduced protectionist measures, preferential tax treatment and interest rates, exclusive access to foreign loans, export subsidies, and suppressive labour policies, among other means. While these institutional arrangements are still significant for the differential accumulation of dominant capital, nowadays they are more indirect than they were in the past. Under state capitalism, state support for the *chaebols* was mostly promised behind closed doors and directly given to selective business groups. Nowadays, due to the well built-up capitalist infrastructure and financial markets, much of the state's support for dominant capital is embedded in general institutional arrangements that are, in turn, immediately quantified into the differential prices of vendible ownership claims.

One of the most popular ways to provide differential support for dominant capital is tax cuts. Although income inequality had intensified throughout the 2000s, no sooner had the incumbent president, Lee Myung Bak, taken office in 2008 than he initiated not only corporate¹⁰ but also individual income-tax cuts. It was expected that government revenues would be decreased by 89 trillion KRW over the next five years (Lee & Shin, 2009). The Korean government argued that tax cuts would induce businesses to increase investment and consumers to spend more, thereby stimulating economic growth. This rationale for tax cuts has been a highly controversial issue for a long time, not only inside but also outside Korea. It is difficult to empirically assess the effects of tax cuts on economic growth. But the effect on distribution is clear. In absolute terms, taxpayers in the highest brackets benefit from a tax break more than others if the tax rate is reduced by the same percentage for everyone. If the tax system

⁹ The Lee Myung Bak government set up the Commission on Shared Growth for Large Corporations and Small and Medium Enterprises in December, 2010. This commission is aimed at coming up with solutions for the non-level playing field between large corporations and their small- and medium-sized counterparts.

¹⁰ The top corporate income tax rate was initially planned to be decrease in two phases: it would be reduced from 25 percent to 22 percent by 2009, and then to 20 percent by 2010. Yet, as the global financial crisis broke out, the second phase was postponed for two years.

is progressive, the higher brackets also benefit more from a tax cut, proportionally. Indeed, it is estimated that, in 2009, the top 0.2 percent of all corporations accounted for 65 percent of the total amount of tax deductions resulting from corporate income-tax cuts of three percentage points (S. S. Cho, 2011).

Along with tax cuts, the Korean government provides the *chaebols* with special tax breaks. Two of the *chaebols*' favourite are the Tax Deduction for R&D Investment and the Tax Deduction for Facility Investment. The former was enacted in the 1960s; the latter, which was enacted in 1982 with a sunset provision, has been extended over and over again with some intermissions. The two provisions allow a company to reduce its corporate income tax by 3 percent and up to 10 percent of investment on R&D and facilities, respectively. According to the doctoral dissertation written by a former commissioner of the Korea Customs Service, the top 10 *chaebols* usually account for about 50 percent of the total amount of tax deductions allowed by the two provisions (Y.S. Yoon, 2011).

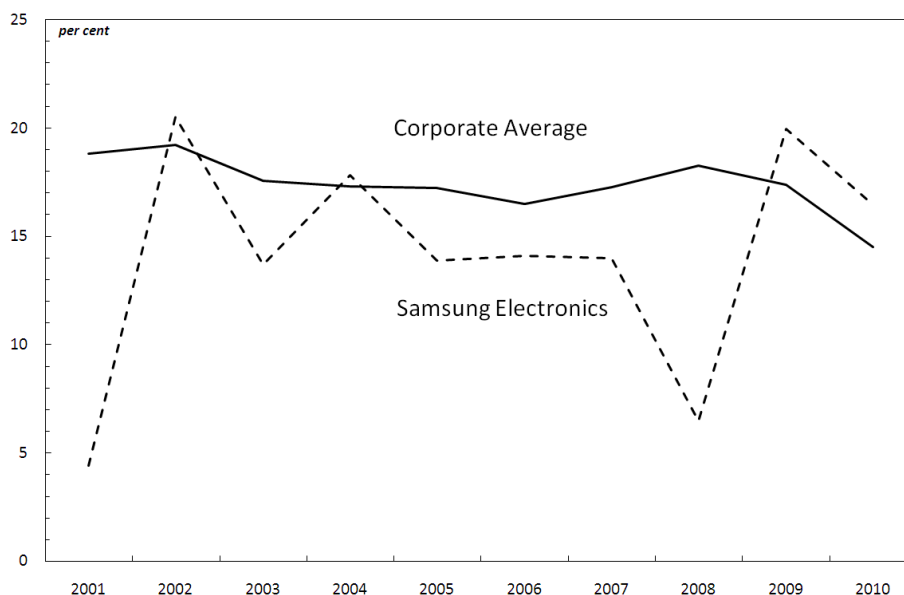


Figure 5.17 A Comparison of Effective Corporate Tax Rates

Sources: KIS-VALUE for Samsung Electronics' effective corporate-tax rate; National Tax Office for the corporate average.

Over the past decade, the greatest beneficiary among the top 10 *chaebols* was Samsung. For example, in 2009 the two provisions enabled Samsung Electronics, a Samsung subsidiary, to save 826 billion KRW. This tax deduction was equivalent to 80 percent of Samsung Electronics' actual corporate income tax. This preferential

treatment existed throughout the 2000s. Samsung Electronics' effective corporate income-tax rate has been lower than the business average. Figure 5.17 shows the comparison of effective corporate tax rates between Samsung Electronics and the business average in the 2000s. Over the ten-year period of 2001-2010, Samsung Electronics' effective tax rate averaged 14.1 percent, which is 3 percentage points lower than the business average, 17.4 percent. Without special tax breaks, Samsung Electronics' effective corporate income tax rate would have been 25 percent.

Table 5.1 Financial Statement of the Foreign Exchange Equalization Fund (billion KRW)

	2002	2003	2004	2005	2006
Net Losses	-1,790	-382	-12,569	-3,449	-7,182
Cumulative Losses	-2,453	-2,835	-15,403	-18,852	-26,035

Sources: The National Assembly Budget Office (2007), Analysis of Budget 2008, p.97, Table 2.

Korean government intervention in the foreign-exchange market is another well-known way of supporting dominant capital. Although Korea adopted a floating exchange rate system in 1997, the government has tried to manage its currency's value within a certain range that helps *chaebols* maximize their price competitiveness in the export market. The main mechanism of government intervention in the currency market is the Foreign Exchange Equalization Fund, with which it usually issues US-dollar-denoted bonds and buys Korean-won-denoted bonds. The spread between the two inflicts huge costs on the government budget.

Table 5.1 shows the annual net losses and cumulative losses of the Foreign Exchange Equalization Fund from 2002 to 2006. During that period, the annual net losses of the fund averaged five trillion KRW—about 3.3 percent of the Korean government's tax revenue. Although it is not possible to calculate how much the government intervention in the foreign-exchange market contributes to an increase in *chaebols'* exports and profits, it is certain that the government spends enormous amounts of public money for private profits, which, in turn, are differentially capitalized.

Polarization within the Working Class

While the centralization of the *chaebols* was a well-known fact even before the 1997 crisis, the gap between organized and unorganized labour (or between regular and irregular workers) has attracted growing attention only since the early 2000s. Ironically, the crisis enabled dominant capital to regain the upper hand over labour. The rise of big labour unions after 1987 made it difficult for Korea's dominant capital to enjoy the previous obedience and subservience of low-wage workers. Yet in the aftermath of the 1997 crisis, dominant capital got the green light for mass layoffs.¹¹ Because of a massive restructuring of the workforce, regular workers were increasingly displaced by dispatched or irregular workers in the name of "industrial rationalization." This restructuring enabled dominant capital to enjoy not only the effects of cost-cutting, but also the benefits of a divide-and-rule strategy that created and sharpened divisions and hierarchies within the working class—well-organized regular workers at the core and unorganized irregular workers in the periphery. The latter, comprising the vast majority of the working class, toil in low-wage and low-benefit jobs with no job security.

Table 5.2 Polarization Within the Working Class

Workplace	Employee Status	Union Density (percent)	Hourly Wage (KRW)	Monthly Wage (KRW)
Contractor	Regular	28.7	14,001	2,774,000
	Irregular	0.1	8,703	1,565,000
	Dispatched	0	5,713	1,377,000
Subcontractor	Regular	15.7	9,512	1,908,000
	Irregular	2.6	6,290	1,313,000
	Dispatched	0.2	6,147	1,061,000

Source: Ministry of Labour (2003), Survey on Working Conditions (quoted from KLI, 2004: Table VI-2, p.171)

Table 5.2 provides a glimpse of the seriousness of the polarization in the Korean job market in the early 2000s. It shows union-density rates, average hourly wages, and average monthly wages according to employee status in Korea's major industries,

¹¹The Mass Layoff Law was enacted in 1997 and became effective in March, 1999. It provided new discretion to capitalists to dismiss workers for business reasons.

including the steel, chemical, automobile, electronic, and IT industries. The data pertain to two categories: the contractors, which are often synonymous with the *chaebols*, and the subcontractors, representing the small economy. In 2003, the union-membership rate of the regular workers belonging to contractors was 28.7 percent—two and a half times higher than the national average of 11 percent. In the case of subcontractors, the union-membership rate of regular workers was 15.7 percent. By contrast, regardless of workplace, irregular and dispatched workers' union-density rates were close to zero.

It seems that labour-union density plays a decisive role in determining workers' wage rates. While the average hourly wage of the regular workers of contractors was 14,001 KRW, those of irregular and dispatched workers who were doing the same kind of work in the same workplace were 8,703 KRW and 5,713 KRW, respectively. In terms of monthly total wages, the average income of irregular and dispatched workers was only half that of regular workers. In the case of workers employed by subcontractors, the average hourly wage of regular workers was 9,512 KRW; that of irregular and dispatched workers was about 6,200 KRW. Thus, it can be said that there emerged a three-tiered pyramid in the wake of the 1997 crisis: the regular workers of contractors at the top; the regular workers of subcontractors in the middle; and irregular and dispatched workers at the bottom.

Table 5.3 The Proportion of Dispatched Workers in the Major Industries

Industries	Contractors		In-House Subcontractors		B/A
	No. of Firms	No. of Workers (A)	No. of Firms	No. of Workers (B)	
Automobile	7	56,682	146	10,221	0.180
Shipbuilding	5	53,780	504	51,427	0.956
Steel	5	11,924	57	4,677	0.392
Electronic	7	59,560	40	7,676	0.129
IT	5	16,023	40	5,297	0.331
Total	29	197,969	787	79,298	0.401

Source: Ministry of Employment and Labour (2010), Survey on Dispatched Workers in the Major Industries, quoted from daily news briefing on the 24th of November, 2010.

The high proportion of irregular workers in the major industries is conceived as being as serious an issue as the widening wage disparity between irregular and regular workers. Labour activists pay special attention to the *chaebols'* illegal practice of dispatch work to which the Korean government has turned a blind eye. Table 5.3 shows the ratio of dispatched workers to direct hires in the five major industries of automobiles, shipbuilding, steel, electronics, and IT. As of 2010, the ratio stood at 0.4, which means that about a third of the workers in the major industries are dispatched workers. The proportion of dispatched workers in the shipbuilding industry is particularly high: the ratio of dispatched workers to direct hires in the shipbuilding industry is 0.96, which means that dispatched workers account for almost half of all workers. In the wake of the 1997 crisis, the Korean *chaebols* have increased the number of dispatched workers hired by in-house subcontractors. These dispatched workers do the same kind of labour as direct hires. In this way, the *chaebols* have attempted to reduce labour costs and weaken labour unions at the same time.

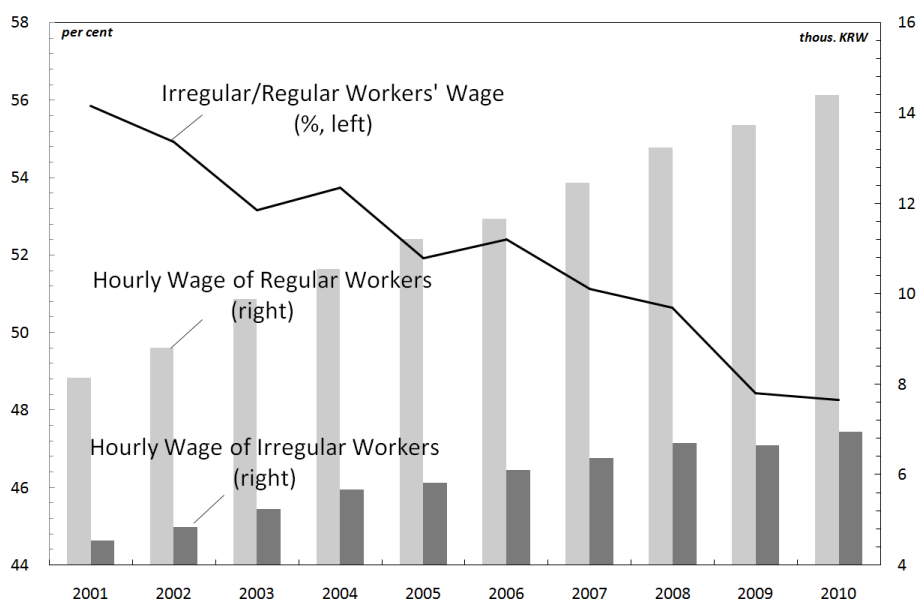


Figure 5.18 The Widening Income Gap Between Regular and Irregular Workers

Source: Statistics Korea (quoted from Y. S. Kim, 2011:22)

Irregular and dispatched workers, who are mostly unorganized, are exposed to high job insecurity, which in turn weakens their bargaining power. Consequently, wage differences between regular and irregular workers, as we can see from Figure 5.18, have been growing throughout the 2000s. The chart consists of three different series: the hourly wage of regular workers, the hourly wage of irregular workers, and the

ratio of the latter to the former. While the average hourly wage of regular workers increased by 77 percent, from 8,139 KRW in 2001 to 14,401 in 2010, the average hourly wage of irregular workers rose only by 53 percent, from 4,546 KRW to 6,951 KRW. This difference helped widen the income gap between the two groups. The wage level of irregular workers decreased from 56 percent of that of regular workers in 2001 to 48 percent in 2010.

To sum up, it is *strategic sabotage* that underlies the consolidation of the power of Korea's dominant capital in the wake of the 1997 crisis. As my analysis in this chapter has shown, the 1997 crisis offered a good opportunity for Korean dominant capital. Neo-liberal restructuring, which accelerated after the crisis, has culminated in massive differential profits and accumulation for dominant capital. It was the Korean *chaebol* families, more than any other social group, that benefited from the restructuring process. In my view, their success in expanding power over society should be attributed not to good luck, but to their active engagement in the restructuring of society. In other words, the massive differential profits and accumulation of the trans-nationalized *chaebols* in the post-1997 period have to be understood as the consequence of, to borrow Nitzan and Bichler's phrase, "ongoing struggles to restructure society against opposition." On the one hand, by increasing complex cross-holdings, these families have leveraged the enormous inflows of foreign investment without losing their managerial grip on dominant capital. The trans-nationalization of ownership has actually strengthened, not weakened, their power. On the other hand, taking advantage of growing job insecurity after the 1997 crisis, they have regained the upper hand over labour, which has, in turn, led to the intensification of inequality in Korean society at large.

6

Conclusion

This dissertation has attempted to offer an alternative understanding of Korea's 1997 financial crisis and the radical political economic restructuring that came in its wake. The dissertation has challenged the two predominant interpretations—"shareholder capitalism" and "national corporatism"—of Korea's recent history. It has argued that these perspectives' "macro-statist" theoretical approaches to Korean capitalism are characterized by dichotomies between "the state" (or politics) and "capital" (or the market) and between "domestic industrial capital" and "foreign financial capital," and that these dichotomies make it difficult for them to grasp the nature of Korea's recent social transformation. My dissertation has tried to overcome these shortcomings by adopting Nitzan and Bichler's approach of capital as power. Their perspective has enabled this dissertation to delve into the mutual transformation of the state and capital and the incorporation of Korean dominant capital into the trans-national structure of global absentee ownership. This, in turn, has allowed us to understand the 1997 crisis and the radical social restructuring in its wake as the latest steps in the long evolution of Korea's capitalist mode of power.

Since the late 1990s, there have been heated debates on the cause of the 1997 Korean crisis and the nature of the country's post-crisis restructuring. These debates, much like the 1980s' controversy over the key determinants of Korea's high economic growth, have revolved around the tension between the (global) free market and the interventionist state. On the one hand, as pointed out in the Introduction and Chapter 5, there has been a consensus that Korean society after 1997 was marked by a shift from a model of high economic growth and high investment to one of low economic growth and low investment. This transition, in turn, was characterized by weakening economic growth, growing job insecurity, and intensifying social inequality. On the

other hand, opinions on the causes of these changes and the 1997 crisis have been deeply divided between those promoting the theory of shareholder capitalism and those adhering to the notion of national corporatism. The former see the main cause as cronyism and the old-fashioned managerial practices of the *chaebols*; consequently, they have tended to welcome free-market reforms and expected these reforms to level the playing field for businesses. By contrast, the latter, placing the blame on the speculative nature of “foreign financial capital,” have campaigned to toughen regulations on foreign capital and restore the statist development model led by the state-*chaebol* nexus.

Despite their popularity, neither of these explanations struck me as persuasive. It seemed to me rather odd that the critiques of the collusion between the state and the *chaebols* and of the speculative nature of foreign capital ended up advocating shareholder capitalism and nationalist corporatism, respectively. As I have argued, there are two main flaws in their theoretical frameworks that result in this asymmetry between “progressive” critiques and “conservative” solutions. First, development economics, which underpins both shareholder capitalism and nationalist corporatism, is premised on the dichotomy between “politics” and “economics.” This dichotomy, by assuming that political processes are external to economic development, tends to depoliticize the social process of production and reproduction. Thus, debates on the evolution of Korean capitalism, including its rapid industrialization, the 1997 financial crisis, and the post-crisis restructuring, have focused narrowly on the issue of whether the state and the market serve to boost or hinder the economy while ignoring the formation of social classes and the power structure underlying economic development. Second, in my view, development economics lacks a proper historical perspective within which to contextualize the rapid economic growth under the military dictatorship, the 1997 financial crisis, and the post-crisis restructuring. Ignoring the global and domestic socio-political contexts in which the interventionist state and the free market are situated, the two rival schools of development economics have sought the major driving force behind the evolution of Korean capitalism in the fixed, abstract nature of either the interventionist state or the free market.

From the critical examination of the two predominant approaches, this dissertation has reached the conclusion that developmentalism and its underlying theoretical premises are the biggest barriers to grasping the nature of Korean social change over the past half-century. In order to go beyond the theoretical framework of

development economics, this research has applied Nitzan and Bichler's capital-as-power approach to the evolution of Korean capitalism. The perspective of capital as power has provided this dissertation with a unique theoretical vantage point from which it makes some original scholarly contributions to several key debates on the transformation of Korean society within the field of political economy. These contributions include a new understanding of Korea's high economic growth through rapid industrialization under the military dictatorship; a new conceptualization of the relationship between the state and the *chaebols*; a new analysis of the cause of Korea's 1997 financial crisis; a systematic quantitative analysis of the concentration and centralization of the Korean *chaebols*; and a new theoretical framework for understanding the nature of Korea's post-1997 social restructuring. Taken together, these contributions put forward a power-centred approach to Korean capitalism, a radical alternative to developmentalism.

Building on Nitzan and Bichler's theory of capital, this dissertation has situated important social events in Korea's recent history—such as the rapid industrial development under the military dictatorship, the emergence of the *chaebols*, the Cold War, democratization, globalization, the 1997 crisis, and the post-crisis social restructuring—as part and parcel of the historical development of the capitalist mode of power in Korea. This type of analysis is possible only if we focus on the differential accumulation of capital. From the perspective of capital as power, as has been pointed out in Chapter 2, the magnitude of capital represents neither its overall productive capacity nor the abstract labour embodied in it, but the power of capital over the entire social process. The numerical ups and downs of differential accumulation by a group of capitalists indicate changes in their power, relative to other capitalists, over society. Yet the link between the qualitative process of power and the quantitative units of differential accumulation cannot be *deterministic*, but *speculative*. Thus, as Nitzan and Bichler (2002: 39) suggest, this dissertation has moved from “the quantitative process of differential accumulation to the qualitative institutions, organizations and processes on which it stands.” After observing the long-term trends in differential accumulation on the part of the *chaebols*, a proxy for Korean dominant capital, the dissertation has tried to offer an explanation of the social conditions that made these trends possible.

Seen from the perspective of capital as power, Korea's transition to the so-called “low-economic growth model with low investment” after the 1997 crisis was not at all a “structural break.” Instead, this dissertation has argued that both Korea's

rapid industrial development under state capitalism and the slowdown of its growth engine in the post-crisis period should be understood in relation to the changing nature of capital accumulation, which is shaped by one and the same dynamic of strategic sabotage. As noted in Chapter 2, strategic sabotage is the capitalist power of social exclusion, which prevents others from accessing profit flows. Over the past half-century, Korean society has been increasingly organized according to the principle of strategic sabotage. While more and more social activities have been commodified, control over the social processes of production and reproduction has been increasingly concentrated in the hands of a few. This historical process culminated in Korea's *chaebol* system.

To demonstrate this point, Chapter 3 has examined the formation of the Korean *chaebols* in the pre-1997 period, especially between 1960 and 1989. The chapter has shown that Korea's dramatic economic growth was instrumental in establishing the capitalist mode of power. In other words, Korea's rapid industrial development under the dictatorship was an external-breadth regime, a strategy for dominant capital to expand power by building new capacity and hiring new employees faster than the average. As a consequence of successful differential accumulation via external breadth, Samsung Group's net profits rose about 900-fold between 1966 and 1989, while Korea's corporate average increased only about 24-fold (see Fig. 6.1).¹ A similar differential pattern was evident for other *chaebols*.

As pointed out in Chapter 3, this differential accumulation would not have been possible without differential industrial sabotage. The regime of differential accumulation under state capitalism relied heavily on the exclusive institutional support of the state. The suppressive labour policies of the authoritarian government helped the Korean *chaebols* maintain a breadth regime characterized by low wages and long working hours; at the same time, protectionist measures provided the *chaebols* with an incubator that shielded them from much more efficient global competitors. It is worthwhile noting once more that *differential* forms of support for dominant capital such as exclusive direct subsidies, selective tax reductions, preferential interest and exchange rates, and specific preferential access to foreign loans played a significant part in the concentration and centralization of the *chaebols*. The so-called cronyism, referring to these selective forms of state support, both overt

¹All values are expressed as three-year moving averages.

and covert, for capital (particularly for the leading capitalist groups), is typical of differential industrial sabotage.

The process of capital accumulation through differential sabotage has helped fuse the state and capital as parts of the same mode of power. In the early stages of Korean capitalist development, when the business infrastructure had not yet been installed, it appeared as if the authoritarian state subjugated business interests to its own objective—the legitimation of the military dictatorship. Yet the power of the military regime was exercised in the broader context of the global and domestic social order. Over time, as capitalist institutions developed and the Korean political economy became increasingly integrated into the global market, the power of the seemingly omnipotent military regime was gradually circumscribed by the *modus operandi* of capitalism. In this process, more and more of the state’s public features were turned into integral facets of private accumulation, especially of the differential accumulation of the *chaebols*; at the same time, the heterogeneous fractions of Korea’s *power bloc* were gradually incorporated into one single ruling class.

It is in the context of this domestic and global capitalist social order that Chapter 4 has examined and situated the causes of Korea’s financial crisis in 1997. Thus, criticizing both neo-classicist and statist views, which have sought the cause of the crisis in cronyism or the whim of foreign investors, respectively, the chapter has argued that the crisis was part of a broader transition of the regime of capital accumulation. This change was, in turn, driven mainly by the following three social changes:

- (1) the global shift in the focus of accumulation coupled with the transition of the world order from the Cold War to globalization, which reset the “limits of the possible” for Korea;
- (2) the changing balance of power among various social groups, not only between capital and labour but, also within the ruling class, which was accelerated by the successful popular revolt of 1987;
- (3) the limits of external breadth, i.e. the negative impact on relative profit per employee, which Korea’s dominant capital had pursued since the early 1960s.

To illustrate these points, Chapter 4 has examined trends in the differential accumulation of Korea’s thirty largest *chaebols*, a proxy for dominant capital, as well as analyzed changes in the corporate share of national income and GDP growth in the

1980s and 1990s. It has also linked these quantitative processes of accumulation to changes in the social conditions of power.

Based on this analysis, the chapter has argued that, since the end of the 1980s, (1) the overall growth of the Korean political economy began to slow down; (2) the corporate share of national income decreased rapidly, making income distribution less unequal; and (3) the differential power of dominant capital, measured by the 30 largest *chaebols*' share of total net corporate profit, dropped considerably (although the top four conglomerates managed to maintain their differential power). Based on these findings, I have argued that there were much more fundamental processes at work underneath the debt-related immediate triggers of the 1997 crisis. Thus, instead of seeking the cause of the 1997 crisis in the fixed nature of the state or the market, Chapter 4 has explained it in relation to the changing nature of accumulation and the social conditions for power—and specifically in relation to the demise of the external-breadth strategy pursued by the Korean state-*chaebol* nexus on the one hand, and changes in the domestic and global social conditions that had facilitated that demise on the other.

To briefly reiterate the points made in Chapter 4, the Korean ruling class had faced simultaneous internal and external pressure since the mid-1980s. Domestically, the authoritarian regime, which had earlier empowered dominant capital to achieve rapid differential accumulation, faced strong resistance from below. Internationally, the Korean ruling class was pressured to make structural adjustments to the Korean political economy to make it compatible with a new world order symbolized by the Washington Consensus of liberalization and deregulation. Initially, these changes in domestic and global circumstances appeared to have afflicted Korean capitalists and seemed to indicate that dominant capital would no longer enjoy obedient cheap labour and the benefits of protectionism that were allowed during the Cold War. The Korean ruling class had no choice but to adapt to changing circumstances.

These observations do not mean that the Korean ruling class was simply responding passively to the pressure. On the contrary, it actively tried to take the initiative in reshaping Korean capitalism. As noted in the chapter, in this process of neo-liberal reform, intrinsic motivation was as important as external pressure. Since the early 1980s, bureaucrats and scholars who were indoctrinated with neo-classical economics gradually gained hegemony within the government and the academy and started reorienting the Korean economy away from statism and towards neo-liberalism. Korea's leading capitalists, initially reluctant to open the political

economy, seem to have come to terms with neo-liberal reforms by the early 1990s. They realized that their businesses had grown too big to be contained within their own borders. After many years of intensified concentration and centralization, they reached the outer limits of their accumulation universe within Korea. Korea's ruling capitalists then began to see liberalization as an opportunity to move into a larger business universe and expand their power.

The 1997 financial crisis broke out in the middle of this restructuring process. While neo-liberal reforms advanced rapidly, Korean dominant capital, sticking to its old strategy of green-field investment, continued to rely on unscrupulous relationships with bureaucrats and politicians to increase their debt financing. Their ambitious strategies to carve out export markets led to a massive increase in debt, especially short-term loans through Non-Banking Financial Institutions. However, as illustrated in Figures 4.6 and 4.7, this expansion culminated in downward pressure on the profits of leading business groups, measured in terms of both the aggregate concentration of profit and differential profit. Changes in domestic and global circumstances, including heightened labour shortages, rising real wages, and growing competitive pressure from other East Asian countries, undermined the expansion of green-field investment by Korea's dominant capital. The deterioration of the *chaebols'* business performance, coupled with their increasingly unstable debt structure (i.e. the high debt-to-equity ratio and the rapid build-up of short-term debt), damaged Korea's credibility abroad. And as many foreign investors refused to roll over their loans, not only the Korean corporate sector, but also the whole of society fell into a crisis at the end of 1997.

In the aftermath of the crisis, by taking the "shock therapy" imposed by the IMF, Korean society underwent radical institutional changes. Within a year after the Korean government officially asked the IMF for a bailout, the country's political economy had shifted decisively to a "free-market" footing. The exchange rate was replaced by a free-floating system; restrictions on foreign ownership in the Korean stock and bond markets were completely abolished; and foreign takeovers of Korean firms were fully deregulated. As noted earlier, there is a consensus among critical economists that the post-1997 restructuring has weakened Korea's economic growth engine, increased job insecurity, and intensified social inequality. At the same time, debates on who is to blame followed the dichotomous frameworks of state versus market and of domestic industrial capital versus foreign financial capital.

Criticizing these dichotomous frameworks of development economics, Chapter 5 has used the perspective of capital as power to make the following three arguments. First, the kernel of the post-1997 restructuring was the establishment of capitalization as the *creorder* algorithm of Korean society. In this process, state power was more fully subsumed into the capitalist mode of power; at the same time, the disparate fractions of Korea's power bloc were incorporated into a coherent ruling class that has come to see the world from a singular viewpoint. Second, the chapter has argued that the essence of Korea's recent globalization was the trans-nationalization of capitalist power through the spatial integration of ownership and accumulation. In this process, Korea's ruling capitalists, transcending their parochial boundaries, have become integrated into the trans-national structure of *global absentee owners*. Lastly, the chapter has argued that the reduction of green-field investment and the intensification of social inequality, relative to the pre-1997 period, have to be explained by the shift of the regime of differential accumulation.

It is conventional wisdom that Korea has been transformed from state capitalism to free-market capitalism through neo-liberal restructuring. Yet this transition is usually characterized as consisting of the retreat of the state without paying due attention to the transformation of the very nature of the state through its historical interaction with capital (or the market). Chapter 5 has drawn attention to this mutual transformation of the state and capital. To reiterate my point, the power of the state, by influencing differential capitalist earnings and risk, becomes a facet of capital, while state organizations and institutions have been increasingly conditioned and shaped by the logic of capital. Through this interaction, the state and capital have been incorporated into the same architecture of mechanized social power, the architecture of differential accumulation. Indeed, as has been pointed out in the chapter, the exclusive support of the state for Korean dominant capital was not reduced at all in the post-1997 era. Various institutional arrangements, such as international trade agreements, tax cuts, labour policies, and exchange rates, continue to play as important a role in the accumulation of dominant capital as they did in the past. While state support for the *chaebols* was directly given to select business groups under state capitalism, nowadays this support is more indirectly offered through general institutional arrangements that are differentially capitalized by dominant capital.

It was the neo-liberal globalization of the Korean market that played the key role in the establishment of capitalization as the primary principle of organizing

society. In the wake of the 1997 crisis, the influx of foreign investment into Korea increased dramatically, and the rapid expansion of Korean financial markets ensued. These phenomena were not particular to Korea; they were common to many other countries as well. The chapter has suggested that the neo-liberal globalization of the Korean political economy has to be understood as part of a broader global transformation. Informed by Nitzan and Bichler's views on globalization, the chapter has argued, both theoretically and empirically, that the essence of Korea's recent globalization was the trans-nationalization of capitalist power through the spatial integration of ownership and accumulation. The so-called coupling of equity markets across the world, evident by their rising cross-correlations, represents a reality in which the diverse social processes of individual states are incorporated as components of trans-national accumulation. Korean dominant capital seems to have been subsumed into this worldwide mega-machine in an attempt to expand its own power.

According to the quantitative analyses presented in Chapter 5, this attempt by the *chaebols* to increase their power by integrating into the trans-national capitalist mega-machine turned out to be very successful. For example, while the foreign ownership share of all listed corporations in KOSPI increased from 3.3 percent in 1991 to 33 percent in 2011, the index for differential capitalization by top three corporations (i.e. the ratio of their average market capitalization to that of all listed companies) rose from 14 to 65—representing nearly a fivefold increase in the domestic power of these firms. The chapter has further analyzed the differential accumulation of Korean dominant capital by examining, first, the aggregate concentration of net profit and the differential concentration of net profit by the top 30 *chaebols*, and second, the top 10 *chaebols*' differential capitalization (see Figures 5.3, 5.4, and 5.14). The aggregate concentration of net profit (measured by dividing the top 30 *chaebols*' net profit by the net profit of all corporations) increased from 15 percent during 1987-1996 to 55 percent during 2001-2010. The rise of differential net profit was much more pronounced than that of aggregate concentration. The overall share of corporate profit earned by the top 30 *chaebols* rocketed from 275 in the early 1990s to 5,933 in the late 2000s—approximately a 22-fold increase. The same pattern is evident for differential capitalization (although the scope of the data here is more limited). The top 10 *chaebols* in 1998 had 19 times the capitalization of the average listed company. By early 2011, this ratio had risen to 48—a 2.5-fold increase over a dozen years.

As Nitzan and Bichler hold, differential accumulation represents an ongoing struggle to restructure society against opposition. The enormous expansion of the Korean *chaebols'* differential profit resulted from the transformation of various institutional arrangements, which shifted the balance of power in favour of the ruling class in Korean society. From this point of view, the so-called polarized growth characterized by decreased green-field investment, increased job insecurity through labour flexibilization, and the *chaebols'* intensified unfair trade practices against small- and medium-sized companies can be understood as part of both universal and differential industrial sabotage for the accumulation of capital. In this sense, we can say that polarized growth is not a new phenomenon unique to the post-1997 era, but “business as usual.” This process began much earlier, when Korea was ushering in the capitalist order. As reiterated several times throughout this dissertation, the essence of the rapid economic growth under state capitalism was also differential accumulation by Korean dominant capital based on differential industrial sabotage involving massacres, suppressive labour policies, and the unconstitutional confiscation of property.

Figure 6.1 focuses on Samsung to proxy the long-term historical path of Korean dominant capital. The chart consists of two series pertaining to Samsung's differential profits: one measures Samsung's profits relative to the Korean average; the other relative to the Fortune 500 average. Over the past 45 years, relative to both the Korean average and the Fortune 500 average, the growth of Samsung's differential profits averaged about 18 percent annually (this number also includes the years of differential *decumulation* that are omitted from the chart). In the mid-1960s, the ratio between Samsung's net income and that of an average Fortune 500 company was 0.02; in the 2000s, it was 20, or 1,000 times larger. That is, Samsung's net profit was twenty times higher than that of an average Fortune 500 company. Korean dominant capital as a whole seems to have followed a similar path, although its pace was slower than Samsung's. The ratio between the net income of the top 30 *chaebols* and that of an average Fortune 500 company rose from 0.2 in the 1980s to 1.3 in the 2000s.

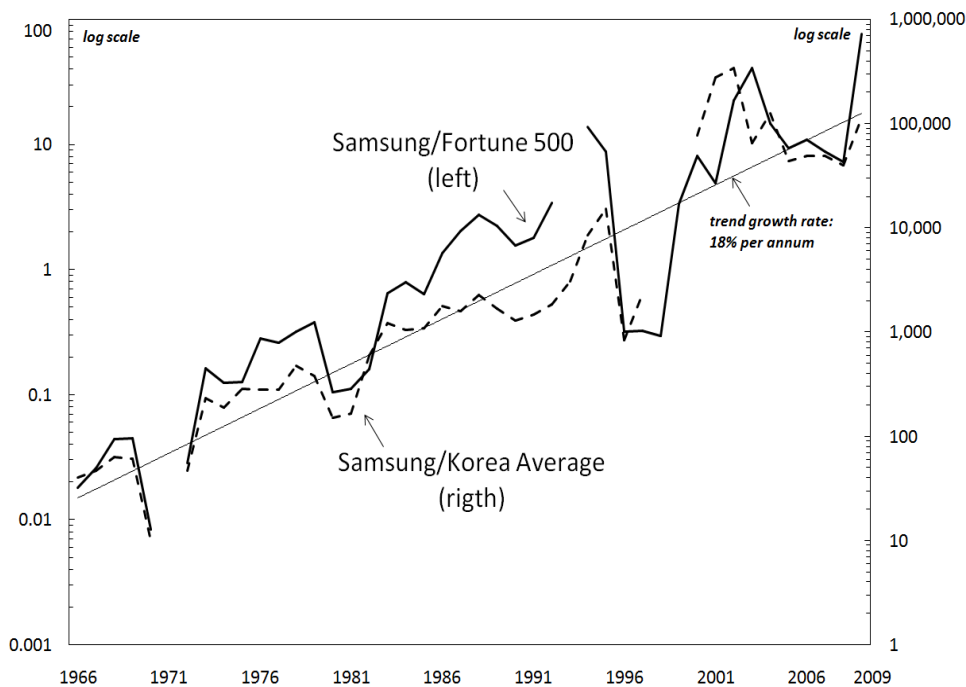


Figure 6.1 The Historical Path of the Korean Dominant Capital:
The Differential Profits of Samsung

Note: Negative numbers are omitted: for Samsung, 1971; for Fortune 500, 1993; for the Korean average, 1997 and 1998.

Sources: National Tax Service for the profits of the Korean corporate average; for Samsung's profits, Samsung 1998 and Samsung Online (<http://www.samsung.com>); CNNMoney for the average profits of Fortune 500 (<http://money.cnn.com/magazines/fortune/fortune500>).

Seventy years ago, most the founding fathers of the Korean *chaebols* were the owners of small corner shops or peddlers. Now, many of their heirs are rich enough to be included in global billionaire rankings: ten primary owners of Korean business groups were included in the 2011 *Forbes'* list of the world's top billionaires. A libertarian research organization sponsored by the *chaebols* argues that this success was due to the Schumpeterian "innovative entrepreneurship" of the Korean *chaebols* (I.Y. Kim, 1998). This claim is unconvincing, to put it politely. As we have seen throughout this dissertation, the Korean *chaebols* have shown innovative entrepreneurship in their relationship with politicians and bureaucrats. The establishment of the strong corporate-government distributional coalition has been key to the massive differential accumulation of Korean dominant capital for the past half-century. At the same time, business barriers to entry set up by the state for the benefit of the *chaebols*, both domestically and internationally, have enabled the latter groups to catch up rapidly with their global rivals. In other words, it is *strategic sabotage* that underlies the half-

century-long evolution of Korea's dominant capital. The massive differential profits and accumulation by the trans-nationalized *chaebols* in the post-1997 period have to be understood as part of this process of Korean capitalist development, which is characterized by "ongoing struggles to restructure society against opposition."

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