

# [Interview] The false dichotomy of South Korean economic theories

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Park Hyung-jun

## In a new book, Park Hyung-jun argues that the state has not receded, but become more of an agent for capital

By Ahn Seon-hee, staff reporter

Since Korea was liberated from the Japanese colonial occupation, the country's economy has passed through various phases: rapid industrialization under the authoritarian government of Park Chung-hee, the democratization after the movement of 1987, the neo-liberal structural reforms that followed the Asian financial crisis in 1997, to the low-growth condition of the present.

Generally speaking, there are two ways of explaining Korea's economic development.

First is that Korea was able to develop successfully because it pursued market-oriented policies such as free trade despite the intervention of the government. According to this explanation, Korea faced various crises because of the immature state of capitalism in the country, including collusion between politicians and business.

The second explanation is that active government intervention was the cause of economic growth but that crises were precipitated by the liberalization of the market and the relaxation of regulations.

This is referred to as the debate about East Asian developmentalism. The former theory is posited by market-centered neo-classicists, and the latter could be described as state-centered developmental theory.

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Economic discourse among Korean progressives is mired in the same dichotomy. The conflict between People's Solidarity for Participatory Democracy and network think tank Alternative Solidarity (2001-2010) in the mid-2000s and the debate about the nature of the Korean economy in 2012 are part of the same discussion.

Hansung University Kim Sang-jo is regarded as one of the foremost advocates of the former theory, while Cambridge professor Chang Ha-joon is one of the leading proponents of the latter.

The recent book "Chaebol: The Transnational Capital That Rules Korea" criticizes the weaknesses of both these positions and aims to provide a new explanation for the Korean economy. The book was written by Park Hyung-jun, 44, a researcher at the Global Political Economy Institute. Park met with the Hankyoreh for an interview on Sep. 12.

"These two theoretical frameworks are based on the abstract concepts of a rational market and a neutral state orientation, but in reality the only things that exist are a capitalistic market and a capitalistic state," Park said. "The state and capital [the market] should not be viewed as being in conflict. Rather, they should be understood as two systematic aspects of one integrated process of wielding capitalist power."

On a theoretical level, Park's argument is based in the "capital as power" theory propounded by Jonathan Nitzan, professor at York University in Canada. (Nitzan was Park's doctoral advisor, and Park's book is adapted from his doctoral dissertation.)

The argument is often made that economic development under Park Chung-hee's regime was spearheaded by an autonomous, unbiased state that set up effective industrial policies and took charge of individual corporations. But from Park's point of view, this argument does not hold much water.

"The military and chaebol formed a ruling coalition that mobilized the entire Korean population through a campaign combining the ideologies of anti-communism, nationalism, and modernization. Thus, they created a labor machine that was nearly identical in form to a military machine," Park said. "The state did not so much contribute to industrial development in the neutral sense of the term as it contributed to compressed growth of capitalistic power."

During the 1971 Asian financial crisis, the relationship between the state and capital changed in Korea. While they remained in a symbiotic relationship, capital edged ahead of the state to take a more prominent position.

During the early stage of capitalism, the state served as a "cocoon" to protect and nurture the "pupa" of capital until it could grow into an adult. But now, capital has become too big to remain in the bosom of the state. The remarks of former president Roh Moo-hyun that "power has gone over to the market" and the phrase "Republic of Samsung" can be understood in the same context.

"The current neo-liberal transformation must not be regarded as representing a structural disconnect with the past," Park said. "It should be viewed as the current phase in the mode of capitalist power, which has been in progress for a long time."

While the state may no longer be front and center, state intervention has not decreased.

"Neo-liberalism does not mean that the state is retreating. Rather, it means that the state is becoming more pro-market and pro-capitalist in nature," Park said.

"The agents that aggressively deregulated and privatized the market, and made the labor market more flexible are the state and its bureaucrats. The only thing that has changed is that the state's direct intervention in the activity of companies has been reduced, while indirect support policies such as tax cuts and exchange rate management have increased. The state also continues to mobilize the police and the judicial branch to aid the repression of labor unions."

Park also contends that the assumption that foreign financial capital and domestic industrial capital are opposed to each other fails to reflect reality. "Even before the Asian financial crisis, the amount of growth that domestic capital could create in South Korea had plateaued," Park said. "So around the time of this

Chaebol behavior  
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crisis, ruling capital in South Korea changed into supranational capital.”

In the case of Samsung Electronics, 78% of its revenue, 31% of its assets, and 34% of its employees are overseas (according to 2006 figures), while 50% of its stock is held by non-Koreans.

When the South Korean government helps export-oriented chaebol by deliberately undervaluing the country’s currency, it is working for the benefit of a minority of “Korean” investors who have morphed into foreign investors and transnational capital.

South Korea’s chaebol, which have been the greatest beneficiaries of the development of capitalism for the past 60 years since liberation, are the primary example of “ruling capital.”

Changes in the index of net profit compared to gross domestic product (GDP) from 1960 to 2010 show that the net profit index for the Samsung Group is 53,452. The takeaway point here is that, of all the wealth created in South Korea over the past fifty years, the relative size of the share controlled by the Samsung Group has increased more than 500-fold.

“South Korea made an economic model called ‘growth first, distribution second.’ This model concentrates the social wealth produced by the entire society in the hands of the chaebol,” Park said. “The state has stepped forward and mobilized and sacrificed all of society to ensure that this model operates properly.”

“Kim Sang-jo and Chang Ha-joon criticize new-liberalism and polarization, but in the end their alternatives boil down to conservative solutions such as old liberalism and a grand compromise with the chaebol, respectively,” Park said. “This is the result of them having idealized the market and the state.”

“If we are to draw the current battle lines in power relationships, transnational capital must be put on one side, and the social community must be put on the other,” Park said.

“The current system of production in South Korea is operated by capital, both foreign or domestic, that colludes with the government for their own private interests,” Park said. “What progressives must do is change this into a political and economic system that is run democratically by all of society. They must also forge an economic model that is based not on how fast GDP grows but on how the economy helps the members of society live decent lives.”

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