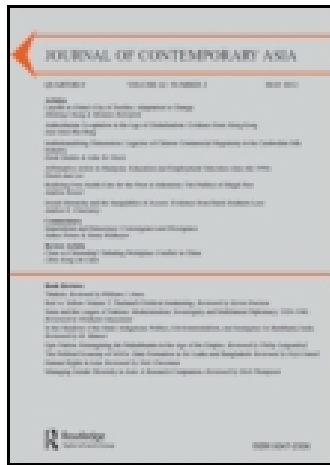


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# From Miracle to Crisis and Back: The Political Economy of South Korean Long-Term Development

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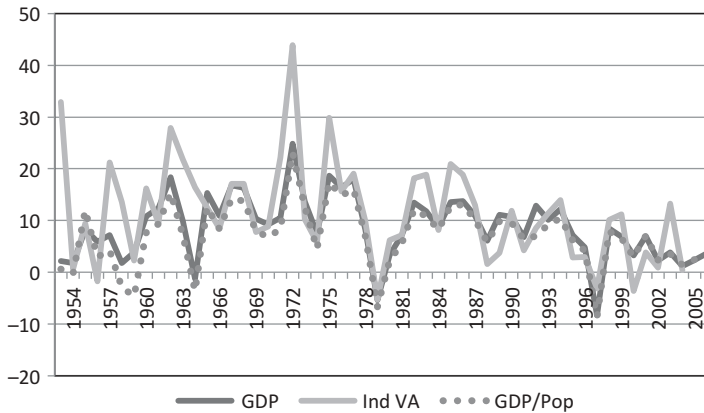
**ABSTRACT** *This article analyses the process of economic development and associated political transformations in South Korea since the mid-1960s. It claims that, as in the rest of East Asia, capital accumulation in South Korea has revolved around the production of specific industrial goods for world markets using the relatively cheap and highly disciplined local workforce for simplified labour processes, as appendages of the machine or in manual assembly operations. This modality of accumulation resulted from changes in the forms of production of relative surplus value on a global scale through the development of computerisation and robotisation, and the concomitant transformation in the productive attributes of the collective worker of large-scale industry. The article identifies the main characteristics of the political and economic relations through which the structural transformation of the Korean society came about throughout the period studied, as a form of realising the global unity of the process of capitalist development. This analysis not only supports the claims made about the specific characteristics of the East Asian processes of capitalist development. It also shows the intrinsic unity of seemingly diverse political-economy processes, as forms of realisation of the transformations of Korean society.*

**KEY WORDS:** South Korea, long-term development, late industrialisation, political economy, economic miracle, economic crisis

The South Korean experience of structural change and social transformation is, by all standards, impressive. In only three decades, the country went from a poor, war-destroyed nation to a leading industrial producer where full employment prevailed and poverty was practically uprooted. Yet, despite its spectacular transformation and recently acquired Organisation of Economic Co-operation and Development (OECD) status, the Korean economy could not avoid the strong financial crisis that swept the East and Southeast Asian region in 1997–98 (see [Figure 1](#) for Korean economic performance). Though several explanations have been advanced to account for the long-term performance of the Korean economy, scholarly debates on the topic have centred on the analysis of state policies and, eventually, the institutions that shape them. On the one side, neoliberal authors like Balassa (1988), Krueger (1990) and the World Bank (1993) attribute Korea's

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**Figure 1.** Rates of growth *Source:* Grinberg (2011, 198). Note: GDP = Gross domestic product; Ind VA = Industrial value-added; GDP/Pop = GDP per capita.

remarkable economic growth and structural transformation to the “free-trade” policies allegedly implemented there since the mid-1960s or, when reluctantly accepting the existence of various forms of state intervention, to the “market-friendly” environment these created. On the other side, “statist” authors, like Amsden (1989), Chang (1993), Evans (1995) and Kohli (2004), argue that it has been based on the creation of a strong “developmental” state which disciplined not only labour but also capital, and solved a number of “market failures” by deliberately “getting prices wrong” and by creating specialised institutions.

The goal of the present article is to provide an alternative account on the trajectory of the Korean economy from the so-called economic miracle to the financial crisis and beyond. This account will build up critically from a third strand of studies on Korean capitalist development grounded on the Marxian critique of political economy. The account presented here will start from recognising the global essence of capitalism and the role of nation-state policies in *mediating* its unity. The article will thus identify the specific characteristics of Korean capitalist development, and show the intrinsic unity of diverse political-economy processes mediating its transformations, as a form of realising the uneven development of global capital accumulation. For that purpose, the article is organised as follows. The next section presents a critical review of mainstream accounts on Korean long-term development. The third section briefly puts forward a novel explanation of the main features of East Asian political economies, claiming that the region’s post-mid-1960s structural change has been driven by transformations in the production of relative surplus value on a global scale, which resulted in the simplification of certain manual labour processes and, thus, in changes in the productive attributes required from the collective worker of large-scale industry. These transformations, it is argued, have allowed capital to accumulate in East Asia, producing industrial commodities for world markets with the relatively cheap and disciplined local labour force. The fourth section then analyses key moments in the long-term trajectory of Korean society, identifying the main politico-economic mediations of the transformations in the process of capital accumulation. In this analysis, the particularly acute local manifestations of the global-scale 1997–99 financial crisis and economic slowdown, and the limited bases of the subsequent

recovery, are understood as specific expressions, despite the previous structural transformation, of the contradictory dynamics of Korean capitalist development. The article closes with a section presenting its main conclusions.

### **Mainstream Accounts**

The debates between neoliberal and statist authors are well-known and, for space reasons, will not be discussed here. In some cases, these analyses are focused on the Korean experience vis-à-vis other “developing” countries outside East Asia. In others, they take a broader regional perspective; the East Asian experience is contrasted with that of other regions (Haggard 2004; Grinberg 2013). Though usually precise and insightful in their analysis of particular economic policies and supporting political institutions, neoliberal and statist accounts have several important limitations which translate into contradictory explanations. For instance, it is apparent that both “market-friendly” and “interventionist” policies have been implemented in several fast-growing East Asian countries (for example, Korea and Taiwan) and in their less “successful” Latin American counterparts (for example, Argentina and Brazil), though with different degrees of intensity across the post World War II (WWII) period. Moreover, it is also apparent that, despite the far-reaching and pervasive intervention of the state there, Korea and Taiwan followed, since the 1960s, a pattern of industrialisation which, though with many distinctive singularities in terms of extension and development, has been qualitatively similar (world-markets-oriented) to that of the other “East Asian Tigers” (Hong Kong and Singapore) and, since the early 1980s, the high-performing Southeast Asian economies (Indonesia, Malaysia and Thailand), all of which implemented a much less interventionist set of policies (Perkins 1994). Notwithstanding the much heated debates, the main problem with these accounts invariably lies not in their inability to uncover the exact mix of policies and institutions that promoted growth in East Asia and hindered it elsewhere in the developing world but, conversely, in exclusively, and one-sidedly, basing their explanations of national economic performances on these factors.

The limits of both types of policy-centred approaches became openly evident in their account of the events leading to the 1997–98 East Asian economic crisis; crucially the case of Korea which took most authors by surprise. Here, both groups of authors seem to reject their own previous stances and look in the opposite direction (Hart-Landsberg, Jeong, and Westra 2007, 1–8). When searching for the cause of the crisis, statist authors point at the previously unnoticed market-liberalisation programme initiated in the early 1980s and deepened throughout the 1990s (see Chang, Park, and Yoo 1998; Wade and Veneroso 1998). In turn, their neoliberal counterparts blame the strong (and allegedly distorting) intervention of the state in the financial and banking sector they had previously ignored (see, for example, Pomerlando 1998).

In response to those explanatory contradictions, alternative approaches began to gain some breathing space. In sharp contrast to both kinds of policy-centred approaches, Marxist authors see the development of Korean capitalism in terms of the interaction between domestic and international processes (see, for example, Hart-Landsberg, Jeong, and Westra 2007, 8–18). Thus, in these accounts, the strong growth occurring between 1961 and 1997 is understood to have been underpinned by a combination of favourable domestic and international circumstances. On the domestic side, the succession of authoritarian governments throughout most of the period is regarded as a key element, supporting capital

accumulation through investments in infrastructure and state-owned companies, subsidised loans to private firms and, crucially, the political repression of the working class to sustain high levels of exploitation. On the international side, US and Japanese support in terms of finance, technology, markets and military assistance are regarded as instrumental in underpinning the economic miracle. For these authors, the reversal of these conditions largely explains the 1997–98 financial-cum-economic crisis and the subsequent recovery under neoliberal restructuring. On the domestic side, as a result of previous developments, the 1980s witnessed the further strengthening of *chaebol* economic might and the rise of working-class political activism, resulting in a diminished state capacity to plan economic activities and to discipline the working class. Freed from state guidance, large firms began then to channel funds to speculative activities rather than to productive investments, while large-scale industrial actions led by *chaebol* manual workers pushed wages up strongly. These processes, it is claimed, weakened the ability of Korean capital to compete in global markets. On the international front, the situation also became more complex than hitherto for Korea. In response to the late 1980s surge in durable consumer goods imports from Korea, the US state stepped up protectionism, while US corporations were increasing their investments in low-wage China to compete with their Korean counterparts. At the same time, to fend off surging Korean competition in global markets, the Japanese state began to restrict exports of capital goods to Korea, while Japanese firms accelerated the relocation of labour-intensive processes to Southeast Asia.

By acknowledging the critical importance of global-economy developments in the reproduction of Korean capitalism, and by demystifying the developmental role of the *capitalist* state, this approach undoubtedly constitutes an advance with respect to the policy-centred, neoclassical economics-informed neoliberal/statist debate. Yet this approach is not without problems; first and foremost, it is unable to explain key specificities of Korean capitalist development. On the contrary, these Marxist accounts of Korean political economy and long-term development do not find any specificity in the local process of capital accumulation, besides those institutional aspects related to its “latecomer” status (see Westra 2006). Hence, it is not clear in the analysis why US support for Korea was such a predominant force in the transformation of the Korean process of import-substituting industrialisation (ISI) into an “export-oriented” one. To being with, it is broadly accepted that US original plans for Korea were to keep it as an exporter of raw materials to Japan (Cole and Lyman 1971; Michell 1988; Amsden 1989; Chibber 1999, 328). Equally, Park Chung-hee’s First National Economic Development Plan (1962–66) aimed at fostering import-substitution and “self-sufficiency” and, to fund those efforts, at promoting traditional, primary-sector exports, rather than the “labour-intensive” ones that would thrive (Economic Planning Board 1962; Clifford 1998, 54). Moreover, even if US procurement strategy during the Vietnam War promoted the consolidation of many future *chaebol*, the sectors of production that grew the most from this experience were construction and military services which were not the ones that would be at the centre of the process of export-oriented industrialisation (EOI) – that is, initially light-industry and, later on, the metallurgic, chemical, shipbuilding, electronics and automotive industries. In other words, the Vietnam War experience can help explain some of the singularities of post-mid-1970s Korean EOI processes vis-à-vis other East Asian Tigers, but not the Korean transition from ISI to light-industry-based EOI in the mid-1960s, nor the transition to heavy-industry-based EOI in the mid-1970s (for example, how Korea managed to outcompete Western Europe and America in the production of non-speciality steel or large

carrier ships and tankers). And, when the Korean EOI process based on light industry was already consolidating, US support for it did not mean granting exclusive access to its domestic market or promoting otherwise uncompetitive imports. In any case, if US support for Korean EOI was based on some kind of subsidisation, it is not clear in those Marxist accounts why the US state decided to change from subsidising Korean ISI to doing the same with its EOI process. Still, support for the latter, whatever it meant in practical terms, was not always forthcoming. In 1971, for instance, the US forced Korea to sign a bilateral trade-restraint agreement on textiles, its main industrial sector and export item, while withdrawing one-third of its troops from Korea and abruptly terminating its food assistance under Public Law 480 (Kim 1975; Hart-Landsberg 1993, 175). Nor is it clear in these accounts why Korean capital has never managed to overcome fully its reliance on low-cost labour power (relative to its competitors in the industrially advanced economies), and begun to accumulate through the cutting-edge (for world-market standards) development of scientific knowledge and technology.

In sum, despite their valuable contributions, the three approaches just discussed have several problems when accounting for the forces behind Korea's spectacular growth up to the late 1990s, the 1997–98 economic crisis and the subsequent recovery. The reason for this failure lies in the fact that these approaches take particular manifestations of the Korean process of capitalist development as if they were the cause of its own specificity. They all suffer from this explanatory shortcoming because, despite their many differences, all these approaches share one crucial theoretical perspective: they regard capitalist development as an essentially national process. In the best of the cases, global economy developments appear as the context or environment to which national processes of capital accumulation adapt, react or integrate with more or less degrees of freedom. Consequently, the three approaches assign some kind of autonomy, absolute or otherwise, to political actions, by social classes or the state, depending on the case, in the determination of the path of development of national processes of capital accumulation. Even Marxist authors who signal the relationships of hegemony, power and domination, either at the local or international levels, as the main determinant of national developmental paths are unable to overcome these shortcomings. When analysing hierarchical inter-state relations, they regard, at least implicitly, the power of each nation-state as emerging prior to their integration into the global process of capital accumulation. Equally, when analysing intra-state power relationships, these Marxist authors, like their mainstream counterparts, regard social classes or groups as emerging somehow independently to the process of capital accumulation which provides the background for their development and interaction – however antagonistic – and is also influenced by their actions. In a nutshell, the problem with these approaches is that, contrary to their theoretical standpoint, the process of capitalist development is essentially global and national only in its form of realisation; and its concrete active subject is capital, the reified general social relationship amongst commodity producers, rather than the state (Marx 1990; Fröbel, Heinrichs, and Kreye 1980; Clarke 2001; Iñigo Carrera 2008).

### **Global Capital Accumulation and East Asian Development**

One of Marx's greatest scientific discoveries is that the historical specificity of capitalism resides in the fact that the production of use-values needed for human life is not organised, as in previous modes of production, through direct personal relations among individual

members of society. In capitalism, social production is organised, and thus the unity social labour established, *indirectly*, through the exchange of the products of labour processes performed privately and independently of each other. The exchange of commodities resolves the allocation of society's labour capacities to satisfy its consumption needs. It does so by signalling, *post factum*, whether or not a particular individual labour process was, at the moment of being performed, part of social labour – that is, necessary to the human life-process (Marx 1990, 125–177; Iñigo Carrera 2008, 10–12). Hence, to resolve the organisation of social production, private independent producers not only produce goods that are useful for others, or social use-values. They also need to produce their own general social relationship – that is, use-values with the aptitude for exchange: commodities. In this indirectly regulated process, individual members of society, who are commodity producers, enter into direct relations with each other, and thus exist for one another, as “persons whose will resides in these objects...as representatives of and hence owners of, commodities” (Marx 1990, 178–179).

The commodity-form or value-form taken by the product of social labour when it is privately and independently performed, however, not only formally mediates the organisation of the process of social reproduction. Nor does the production of value simply become the *goal* of the process of material production. In the capitalist mode of production, the valorisation of value, or the production of surplus value, is the latter's immediate *objective*. The commodity, the objectified general social relationship, thus develops into the automatic *subject* of the production and consumption processes – it becomes capital. As self-expanding value, capital has no other *qualitative* determination than its boundless *quantitative* progression (its “never-ending augmentation”). Subsumed under the capital-form, the production of social use-values – and hence of human beings – becomes inverted into the accumulation of the total social capital. The universal potentiality of the commodity-form, due to its impersonal character, thus becomes necessity when it develops into the capital-form. Yet, due to the private character of social labour, the global essence of capital accumulation has so far existed in the form of interdependent, but formally independent, national processes (Marx 1990, 247–269, 702, 929; Iñigo Carrera 2008, 12–15; 148–150).

State policies and the processes of social interaction through which they come about, are, contrary to market transactions, *direct* forms of organising the process of social metabolism. They resolve the allocation of individual labour capacities, and thus their participation in social labour, before they are performed; they are the product of conscious and voluntary *direct* relations among individuals. Yet, in capitalism, these are themselves representatives – *personifications* – of the commodities they own. State policies, then, are forms of realisation of the general *indirect* way of organising social production through capital accumulation.

Effectively, the historical specificity of the capitalist state develops in the process of production of surplus value. In this process, the renewal of the conditions for capital's self-valorisation takes form in the sale and purchase of labour power at its value (the cost of reproducing it with the physical and mental capabilities normally required by capital). Competition among sellers of labour power, however, tends to be stronger than among buyers, thus potentially undermining the normal valorisation of the total social capital. The process of capital accumulation, then, gives these relationships of competition the concrete form of relationships of solidarity between those who personify their labour power, on the one hand, and between those who personify their capital, on the other.

Hence, in the process of sale and purchase of labour power at its value, the inherently antagonistic relationship between private sellers and buyers comes about through the struggle between collective personifications of labour power, the working class, and of capital, the capitalist class. The class struggle is this general direct social relationship in which the general material unity of social labour is established as a form of realisation of the sale and purchase of labour power at its value, and thus of the general indirect social relationship, the exchange of commodities product of capital.

Although a necessary form taken by the reproduction of the total social capital, the antagonistic character of the process of class struggle disrupts the fluidity of the former's valorisation. The process of class struggle thus needs to take the concrete form of its opposite, namely, a relationship of general solidarity where class antagonisms are at the service of the realisation of the "common good." For that, this relationship of general solidarity needs to be perceived as the opposite of what it is; as the product of the free will of individuals. But, as the product of free consciousness and will, which are the form of realisation of alienated consciousness and will (that is, of the consciousness and will of personifications of commodities), it also has to take a reified, external form that faces its producers as a power that dominates them in their condition of "naturally" free individuals. This double necessity finds its resolution taking the form of citizenship of the state. As a concrete form of the general unity of the organisation of social production in capitalism, the state is the general political representative of the total social capital. And, by virtue of its very nature, the state subsumes all the direct actions necessary to assure the reproduction of the normal conditions of exploitation of the labour force (see Marx 1990, 373–413; Iñigo Carrera 2008, 95–105).

Yet, though its historical specificity develops in the process of production of absolute surplus value, the historical potentiality of the capitalist state is only fully developed in the process of production of relative surplus value. This process comes about through the trend towards the expansion of the scale of production and the socialisation of labour processes. The centralisation of capital is the most potent form of overcoming the limits that private individual property lifts to these, and, thus, to the production of relative surplus value. The direct centralisation of capital by the total social capital through its political representative, the state, is the most potent form of doing so. More generally, as in the process of the sale and purchase of labour power at its value, whenever the forms of production of relative surplus value result in the valorisation processes of individual capitals affecting the normal fluidity of the accumulation of the total social capital, this, through its direct political representative, the state, takes the regulation of the process directly in its hands (Iñigo Carrera 2008, 106–108).<sup>1</sup>

In sum, state policies, and the processes of class struggle through which they come about, need to be understood as political forms of realisation of the general *indirect*, self-regulating way of organising the allocation of labour capacities through the exchange of commodities – the process of valorisation of value on an expanded scale. Hence, nation-state policies are not independent variables that autonomously shape and determine national processes of capital accumulation. On the contrary, they need to be seen as *mediations* in the realisation and development of the global unity of the process of capital accumulation through the specific determination of each national portion of the total capital of world society. Certainly, this includes the political representation in the world market, with its specifically determined strength, of the total national capital vis-à-vis other national portions of global capital (Iñigo Carrera 2008: 148–164).



As every concrete form of realisation of the process of capital accumulation, the global unity of capitalism is only fully developed in the process of production of relative surplus value. It is pursuing its goal to reduce the value of labour power – and thus to increase its valorisation capacity – that the total social capital permanently searches for places where particular natural or historical conditions allow it to reduce the cost of producing the commodities that directly or indirectly reproduce the labour force. Originally, this process was centred on the search for regions where raw materials could be produced at a lower cost, or at all, and gave place to the classic international division of labour.

During the last 40 years, however, the global process of capital accumulation has experienced notable changes in the forms of production of relative surplus value, through the computerisation and robotisation of large-scale industry, crucially since the microelectronics revolution of the mid-1970s. On the one hand, these technological transformations have involved the further expansion of the productive attributes of wage-labourers performing the more complex parts of the work process, both of those involved in the vanguard development of science and technology and of those in charge of organising the material unity of the increasingly larger cooperative production processes. On the other hand, those technological changes have entailed a sharp step in the simplification of manual labour processes. To begin with, the automation of production processes has simplified the productive functions of most manual labourers remaining on the shop floor as operators or appendages of the increasingly self-controlling, self-calibrating and self-adjusting machines. Moreover, the new technological conditions have also generated a multitude of production processes still subjected to the manual intervention of low-skilled labourers; like the assembling, testing and packaging of electronic micro-components and appliances which are at the base of the robotised and computer-aided systems of machinery (Coriat 1992; Balconi 2002; Balconi, Pozzali, and Viale 2007). In brief, the internal differentiation of the collective labourer of large-scale industry according to the type of productive attributes has tended to increase substantially as a result of those developments; and so has the cost of producing and reproducing its different parts. As a concrete expression of the immanent nature of the process of capital accumulation, these transformations have been global in content. Yet, they have led to a transformation of the modes of existence of the global collective labourer, which has resulted in a novel differentiation of national spaces of accumulation and in a reconfiguration of the international division of labour (Iñigo Carrera 2008, 55–93; Grinberg and Starosta 2009; Grinberg 2013).

Effectively, based on these transformations in the labour process, and the associated revolution in communication and transport methods, capital has been increasingly able to spatially disperse the different parts of the labour process according to the most profitable combinations of costs and productive attributes of the different national fragments of the global labour force, thus giving birth to the so-called new international division of labour (NIDL). This, it should be stressed, does not mean that multinational companies (MNCs) have been the single drivers of the process as is sometimes argued by authors like Schoenenberg (1988) and Gereffi (1995), among others. Irrespective of individual capitals' national origin and of the forms of inter-firm relations, this process, directly or indirectly, minimises the costs of reproducing the global labour force, and thus increases the rate of valorisation of the total capital of world society, the *subject* of the process of accumulation (Fröbel, Heinrichs, and Kreye 1980; Iñigo Carrera 2008). MNCs, the so-called “national champions,” the recently emerging “global suppliers” and the “production

networks” established amongst them have constituted “institutional” mediations of the NIDL (Starosta 2010).

The formation of geographically dispersed “chains” of production of surplus value has been driven by the relocation of simplified manual labour processes to regions with labour forces that are not only *relatively* cheap but, also, whose specific productive attributes include the disciplined subordination to centrally and hierarchically organised collective work processes and the habituation to “labour-intensive” activities under harsh conditions. This has been the case of working classes whose genesis occurred in wet-rice cultivating societies, like those of East Asia (Northeast and Southeast Asia).<sup>2</sup> These characteristics have made the East Asian labour force particularly productive when working as an appendage of the machine or in manual assembly operations; hence the region’s participation in the NIDL and its consolidation as a global industrial base (Iñigo Carrera 2008; Grinberg and Starosta 2009; Grinberg 2013).

Certainly, the NIDL has come about through the consolidation of particular nation-state policies and institutions, described in great detail by neoliberal and statist scholars, and through specific international and class relations, as described by Marxist authors. These political forms, however, did not determine the economic content of the accumulation process in East Asia; they only mediated its emergence and development. Thus, in those Northeast Asian countries (plus Singapore) that around the early 1960s became sources of relatively cheap and disciplined labour power to perform the simplified parts of industrial labour processes, state policies concentrated on the creation and subsequent reproduction of the necessary conditions for capital to accumulate under that new specific modality. These have included exports promotion, liberalisation of imports of inputs used in export production, selective and short-lived protection of infant industry, in terms of trade policies, and measures facilitating the rapid acquisition of technological capabilities associated with world-markets production (including, when necessary, the rapid concentration and centralisation of private industrial capital or its direct centralisation by the political representative of the total social capital: the state), in the area of industrial policy. Furthermore, the so-called East Asian developmental states in all cases pursued decisively the political suppression of independent labour movements, thus allowing capital to purchase labour power below its value and to differentiate the conditions of reproduction of the different parts of the national workforce according to their productive attributes (Deyo 1989; Grinberg and Starosta 2009).

The key point being made here is that public policies took that form not out of the enlightenment or benevolence of state bureaucrats who formulated them as part of a “welfare-maximising,” export-oriented development strategy, or as part of an abstract catch-up process led by a generic capitalist state. Instead, state forms and public policies in the East Asian Tigers changed in that specific direction because the underlying conditions for the valorisation of capital there had been transformed. On the contrary, ISI programmes remained at the centre of state policy in the parts of the developing world where capital continued to accumulate on the basis of the appropriation/recovery of a portion of ground rent; either because the specific kind of labour power it needed for export-oriented production was not there, or because the ground rent constituted a sufficiently large source of extraordinary surplus value to allow industrial capital to valorise normally, albeit with a structural limit to its development, despite producing on a small scale for domestic markets.<sup>3</sup> Indeed, the existence of a relatively large ground-rent vis-à-vis the East Asian Tigers meant that the transformation into platforms for export-oriented industrial production

of Southeast Asia and Mexico, where the working class had also its genesis in peasant populations performing agriculture under centrally organised irrigation systems, was delayed until around the early 1980s. It was only then that the contraction of international primary-commodity prices, and of loanable capital inflows complementing the ground rent, severely weakened the material bases for the reproduction of ISI processes and enhanced, by means of substantial real-wage falls as in Mexico, the prospects of the new modality of capital accumulation (Doner, Ritchie, and Slater 2005; Grinberg 2010). It is this difference in “timing” that largely accounts for the variations in the patterns of industrial “deepening” between the East Asian Tigers and their “followers.” And it is the characteristics of the industrial sectors developing in each country that explain the type of economic and political institutions emerging there to solve specifically different “collective action” challenges, rather than the other way round, as often argued (see, for example, Doner, Ritchie, and Slater 2005). This, of course, does not mean that the Tigers’ present is necessarily the future of the followers. The process of capital accumulation is global in content, and national only in its form of realisation. Indeed, the NIDL has taken form in a hierarchical structure which, due to global-scale requirements of different types of labour power, narrows at the top and widens at the base. Moreover, the advent of China, with its “unlimited” supply of relatively cheap and disciplined labour power, has strongly restricted the “upgrading” possibilities of the rest of the followers.

Effectively, processes leading to the formation of the NIDL have not been static as Fröbel, Heinrichs, and Kreye (1980) suggested in their original theorisation on the subject. On the contrary, they have taken shape in a wide and constantly changing range of combinations of relative cost and characteristics/productivity of national labour forces. Originally, the NIDL centred on the international relocation of “unskilled-labour-intensive” industries, like clothing, footwear and microelectronics assembly. Yet the aforementioned technological transformations have involved an ever-wider range of industrial sectors, including relatively complex ones, like steel, automobile and microelectronics production (Balconi 2002; Balconi, Pozzali, and Viale 2007).<sup>4</sup> Moreover, as local peasant surplus populations in the most advanced East Asian economies (first in Japan and then Korea and Taiwan) were exhausted, domestic labour forces began to be reproduced under new conditions which, in turn, have enabled them to perform increasingly more complex labour processes. Production in unskilled-labour-intensive industries contracted in these countries while expanding in others where surplus populations of peasant origin were still extensive and real wages lower, such as Malaysia, Thailand, Indonesia, Mexico and China.

Hence, the NIDL superseded the classical international division of labour based on the determination of some countries as producers of raw materials for the world market (whether or not accompanied by the development of industrial production for the domestic markets) and the concentration of advanced industrial productions in others. The presence of distinctive natural conditions, enhancing the productivity of labour in primary productions or simply permitting them in the former group of countries, played a crucial role in their form of integration into the capitalist world division of labour. The NIDL has tended to revolve around the international fragmentation of the different segments of the large-scale industry workforce. Some countries have tended to concentrate within their boundaries the great bulk of the skilled labour force, and therefore the most complex labour processes (mainly America and the European Union but also lately partly in Japan). Other countries have mainly transformed into sources of *relatively* cheap and disciplined labour for simplified, though increasingly complex, productions (for example, originally

Japan and the East Asian Tigers, and later Southeast Asia and China).<sup>5</sup> Yet a third group of countries has remained integrated into the international division of labour as producers of raw materials, and therefore as sources of appropriation of the extraordinary profits available there in the form of ground rent, while increasingly becoming reservoirs of surplus population and eventually new sources of cheap and disciplined labour power for global industrial capital (Iñigo Carrera 2008, 148–164).

### The Development of Korean Capitalism

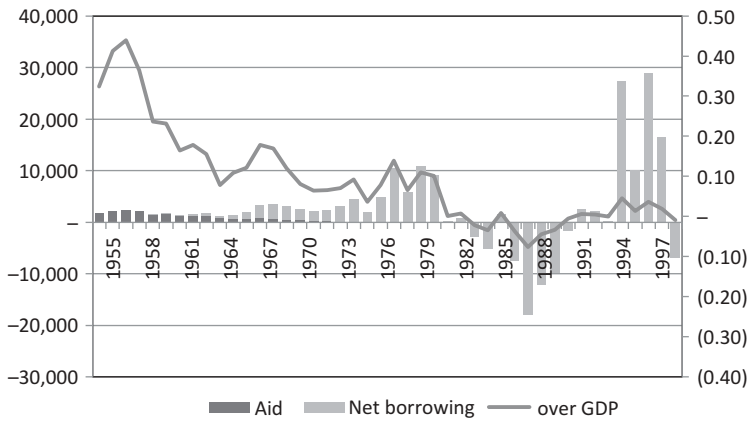
The previous section analysed key changes and trends in the process of capital accumulation on a global scale, and identified the main forces behind the post-WWII structural transformation of East Asian societies. This section will briefly identify the main politico-economic forms through which that structural transformation has come about in Korea, as a form of realising the production of relative surplus value on a global scale. In doing so, this section will provide a novel account of the trajectory of the Korean economy, from the “miracle” to the crisis, and briefly comment on the main characteristics of its subsequent recovery.

It should be stated from the onset that this section does not attempt to analyse in detail the diverse political struggles that mediated, and gave shape to, the economic transformations at stake. For space reasons, this task exceeds what can be done here (see Grinberg 2011). The goal of the section, then, is to relate the main trends in policymaking, political institutions and growth performance to the contradictory development of the economic content of the process of capital accumulation.

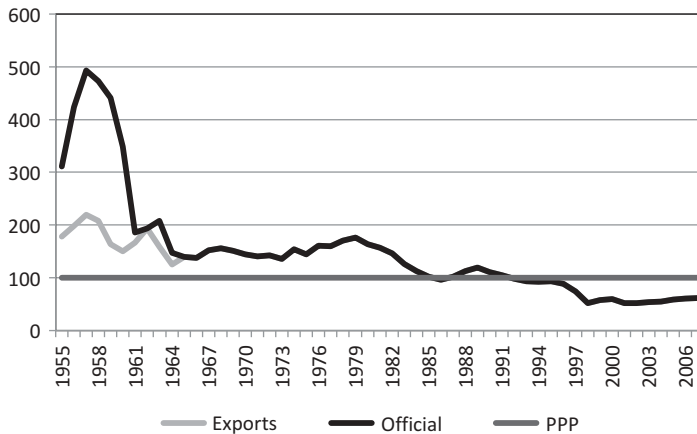
#### “Mild” ISI Process

During the second part of the 1940s, and for most of the 1950s, Korean society was either recovering from a military conflict or fighting one. Nevertheless, both during recovery periods of 1945–50 and 1954–59 and, also, during the first half of the 1960s, the structure of the local economy did not differ *qualitatively* from that of most “developing-country” economies, where capital was accumulating through the appropriation of a portion of primary-sector surpluses, crucially ground rent, complementing normal (ordinary) surplus value. As elsewhere, this process came about in Korea through the implementation of a set of policies promoting ISI (see Frank, Kim, and Westphal 1975; Westphal and Kim 1977; Krueger 1979, Ch. II; Hamilton 1986, 33–35). However, with limited primary-sector surpluses available for appropriation, when accumulating under that specific form, capital was incapable of sustaining there a process of industrialisation of any significance; not even when ground rent was complemented with a portion of small agrarian capital profits and substantial US aid inflows (see Figure 2 for the evolution of foreign aid and loanable capital inflows). Effectively, whatever its immediate political goal, the agrarian reform pursued in Korea in the ten years after WWII transferred land ownership to the rural worker, but did not end with the appropriation of a portion of agrarian sector surpluses by social subjects other than the small capitalists/landowners. It just got rid of the old parasitic landowning class (Hamilton 1986; Grinberg and Starosta 2009).

The Korean ISI process presented many of the features that characterised most contemporary developing-country experiences. The combination of exchange rate overvaluation and market protection became the dominant form of channelling primary-sector



**Figure 2.** Net inflows of aid and credit in million 2004 US\$ *Source:* Grinberg (2011, 98). Note: To compute the ratio of net inflows to GDP, the former were converted into local currency using the PPP exchange rates in Figure 2.



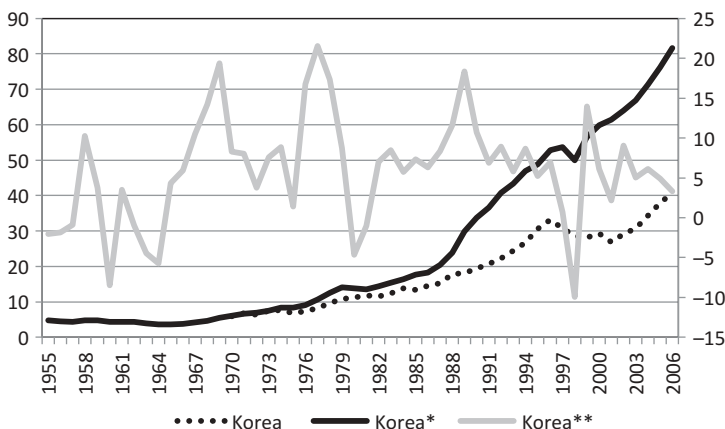
**Figure 3.** Fluctuations of exchange rates around their purchasing power parity. *Source:* Grinberg (2011, 71). Note: Computed using the relative PPP method corrected with relative evolution of economy-wide labour productivity. The period 1985–96 was used as a base.

surpluses and foreign aid inflows to industrial capital and its junior partners (see Figure 3 for the evolution of exchange rate over/undervaluation). In Korea, the process also came about through state control over the domestic trade of rice, barley and fertilisers. Through its influence over their prices, the state could either supplement the overvaluation of the currency as a form of appropriation of agrarian surplus value by industrial capital, or compensate for its negative effects on small-capital reproduction (Moon and Kang 1991). The portion of these resources appropriated in the first instance by the state was used to provide subsidised credit to industrial capital, to enlarge the domestic markets through public-sector employment and to finance investments in state-owned enterprises and infrastructure, thus constituting further forms of wealth transfer to industrial capital (Hamilton 1986; Kolhi 2004, 77).

In contrast to other developing-country experiences, crucially in Latin America, industrial capital in Korea during this period was largely domestically owned. Given the small size of the Korean ground rent, and thus of the domestic market, investments by MNCs in production for local consumers remained relatively low by developing-country standards, despite extended state efforts to promote them (Westphal and Kim 1977, 8). Moreover, the conditions to produce industrial goods there for world markets, using the internationally cheap and highly disciplined local labour force, were not yet fully developed. Hence, the limited development of industrial production for the domestic market – that is, the “mild” characteristics of the local ISI process – did not result from the “balance” and “non-dogmatism” of policymakers, the abstractly determined size of the domestic market, or the “non-purposiveness” of the state, as argued elsewhere (see Ranis 1995; Balassa 1988 and Kohli 2004, respectively). Rather, this limited ISI process resulted from the relatively small magnitude of the masses of extraordinary social wealth available for capital to accumulate in this form, and would rapidly enter into crisis.

Effectively, despite recovering strongly in the aftermath of the Korean War, already by the end of the 1950s Korea’s economic growth was running out of steam, as its limited bases of support weakened. After peaking in 1957, US aid began to fall rapidly, almost halving by 1961, while US policy for international development was then changing from “aid” to “trade” as balance-of-payment difficulties there were becoming permanent (Kauffman 1982, 176–196). Despite its special geopolitical condition, Korea was not spared from the cuts. Moreover, with international primary-commodity prices falling and agrarian output growing slowly, the amount of resources that could be transferred from that sector to industrial and commercial capital was also limited.

The clash of the Korean process of capital accumulation against its specific limit manifested itself in a deep economic crisis and the sharp fall of real wages (see Figure 4 for the evolution of real wages in the industrial sector). This process, however, could not be administered swiftly by a “democratically” elected government supported by



**Figure 4.** Industrial wages: purchasing power relative to US levels (left axis) and rate of growth (right axis) *Source:* Grinberg (2011: 212, 238). Note: Purchasing power of hourly industrial wages relative to US levels (primary axis) – Korea\* = Manual workers in permanent employment contracts; Korea = All employees. Korean Won values were converted into US\$ using the PPP exchange rates for consumption estimated by the World Bank. Korea\*\* = Rate of growth of real manual worker wages (secondary axis).

large sectors of the organised labour movement, such as the one in power under Syngman Rhee (1948–60). As the crisis gained momentum, Rhee's populist-style, increasingly autocratic government was overthrown by a reformist students-led "revolution" that catapulted into office a weak conservative, elite-led administration. The latter, however, lasted less than a year; in mid-1961, it was removed by a military coup led by Park Chung-hee, apparently in the pipeline for long and only postponed as the revolution outmanoeuvred it. Amongst its first moves, the military removed existing political opposition to wage compression by banning labour and student activism and persecuting their leadership (Cole and Lyman 1971; Kim 1975; Hamilton 1986, 26–28).

### *Export-oriented Industrialisation*

Despite the permanent state of crisis of the first part of the decade, through the mid-1960s the Korean process of capitalist development began to experience a profound transformation, characterised by the strong expansion of export-oriented industrial production. As mentioned above, this did not result simply from a shift in public policies and/or external political conditions. Rather, processes leading to the emergence and subsequent consolidation of the NIDL were then creating the possibility for capital to produce industrial commodities for world markets in Korea, taking advantage of the vast availability of relatively cheap and disciplined labour power which was particularly suitable to function as an appendage of the machine or, crucially then, in the manual assembly of components and parts. Moreover, the substantial fall of real wages which occurred during the first half of the 1960s (10% between 1961 and 1964 for core manual workers) enhanced the conditions for the emergence of the new modality of capital accumulation. Policy changes, local and foreign, were forms of realisation of the economic transformation at stake.

Between the mid-1960s and the mid-1970s, changes occurring in the Korean economy resulted largely from the increase in the price of the Japanese industrial workforce, as the global process of capital accumulation began to transform Japan into a producer of consumer-durable goods, industrial inputs and equipment for world markets under the above-discussed bases (Kohli 2004; Iñigo Carrera 2008, 70–72). The Japanese labour force began then to be replaced by new sources of relatively cheap and disciplined labour power available in East Asia to perform simple manual-assembly labour processes, like those in the textile, apparel and microelectronics industries. In most cases, the skill-replacing technical changes permitting the flourishing of these industries in the region had already been in place for several decades (Silver 2003, 87–89). In the Korean case, this process was, to a very large extent, directly or indirectly controlled by Japanese and US industrial capital (Chibber 1999; Scott 1987); hence, the shift in Japan's and USA's policy stances towards Korea (that is, their new found support for its incipient EOI process). After the mid-1970s however, the transformations experienced by the Korean economy have resulted not only from the continuous appreciation of the Japanese labour force. They have also, and crucially, resulted from the direct impact of the contemporary processes of skill-replacing technical change, initially in process (continuous-flow) industries like steel and chemicals, and subsequently in serial production (repetitive-flow) industries like motor vehicles and electronics. Moreover, by then the Korean labour force was itself becoming a product of the process of capital accumulation; its quality

was, thus, continuously improving through on-the-job experiences and, increasingly, state mediation (Grinberg 2013).

Three types of policies and institutions began to mediate the structural transformation and long-term reproduction of the Korean process of capitalist development. Some facilitated the export orientation of industrial capital accumulating there. Others accelerated its concentration in the masses required for world-markets-oriented production. A third set of policies and institutions reproduced the local workforce with the characteristics needed for those activities. Moreover, a new type of more “cooperative” public–private sector interaction emerged, to fine-tune the design and implementation of the policies and institutions mediating the structural transformation of the Korean economy.

*The “Developmental state” stage of EOI (1965–79).* As noted, the transformation of the specific characteristic of the Korean process of capitalist development came about through changes in state institutions and public policies, as well as in their ideological forms of realisation. Effectively, during the second part of the 1960s, trade policies began to shift direction in order to promote the growth of the only sector of the economy that had not been in crisis during the first part of the decade, namely, the export-oriented, “unskilled-labour-intensive” industries. The exchange rate for exports was then partly devalued, tariffs on imports used in export production were largely scrapped, subsidies on exports were increased and supporting organisations strengthened (Frank, Kim, and Westphal 1975; Michell 1988, 61–68). Moreover, when foreign capital inflows recovered during the latter part of the decade, this time in the form of commercial loans, resources were transformed, through state mediation, into industrial capital producing consumer non-durable goods for world markets rather than being used to support domestic-markets-oriented production, as had been the case hitherto. Light-industry production for global markets expanded strongly, and economic growth accelerated thereafter (Michell 1988; Krueger 1979, 99–104, 131–138).

The new economic formation of Korean society was based on the availability of large pools of relatively cheap and highly disciplined labour power of peasant origin that was suitable for simple productive activities. State policies, thus, also concentrated on the reproduction of these conditions. Under national security arguments that exploited nationalistic sentiments, independent trade unions and liberal political organisations were banned and their members persecuted, while democratic institutions were severely limited, thus removing any resistance to the relatively slow growth of real wages and the imposition of long working days under hazardous and harsh conditions, notably to unskilled and female workers. These repressive institutions, like their predecessors during the period of Japanese colonisation, reinforced aspects of Korean society developed throughout long-term history (including the authoritarian colonial experience) that enhanced worker discipline and favoured the consolidation of segmented labour markets, namely, its highly hierarchical and patriarchal structure and the habituation to harsh working conditions (Choi, 1989, 22–23, 60–64; Bello and Rosenfeld 1992; Koo 2001, 46–54).

By the early 1970s, the automation and computerisation of industrial equipment had already extensively affected large-scale heavy and chemical industries (HCIs), and the Korean economy began to be directly affected by these transformations. Not only had the Japanese workforce continued its process of “up-skilling,” and, hence, appreciation, while being used to perform increasingly complex productive tasks. In addition, technological advances had further simplified several industrial activities, notably in continuous-flow



HCI, thus allowing the use of a less skilled and experienced, and thus cheaper, workforce to perform them. Industrial capital had access in Korea to a large surplus population that not only commanded very low wages by international standards but, as the Japanese, was also highly disciplined, tolerant of harsh working conditions during long hours and, after the two-year compulsory military service, easily trainable.

The deepening of the industrial base, resulting from the development of the NIDL, came about through a major transformation in the political forms of realisation of the Korean process of capital accumulation. Unlike in the light industries, the emergence and consolidation of world-market-oriented HCIs required protection and favourable tax treatment during relatively long implantation and maturation stages. Moreover, it also, and crucially, required the concentration of capital on relatively large scales, notably for the size of the local economy. The rapid creation and development of individual capitals in these sectors thus needed to come about through more extensive forms of state intervention than hitherto. To develop some sectors, the state, the political representative of the Korean social capital, centralised capital under its ownership. In other cases, it forced the centralisation of privately-owned individual capitals or limited market entry, thus avoiding fragmentation. In all cases, state-run banks supplied individual firms with, often subsidised, capital in the quantities (degree of concentration) necessary for competition in world markets through the introduction of advanced technologies. In this process, the relationship between those personifying individual capitals and those representing the national process of capital accumulation in its unity (that is, state officers) became increasingly closer, intertwined and, inevitably, corrupted (Kim 1975; Kang 2002). Led by the strong expansion of HCI production and exports, Korean economic growth gained momentum during the “big push” of the 1970s (Van Liemt 1988, 11–13).

These transformations in public-policy orientation found their most developed expression in the HCIs Plan (1973) and generally realised through the further concentration of political power in the executive branch of government, and the conformation of an authoritarian, “developmental” state. Effectively, the policy shift undertaken through the 1970s HCIs drive required the large and concerted mobilisation of limited material resources, and tight control over the industrial workforce. A new constitution and several ad hoc laws were then sanctioned, giving dictatorial powers to the president, crucially to decide policy and to repress any form of labour unrest (Hart-Landsberg 1993; Koo 2001, 54–68). The HCIs Committee and the Presidential Secretariat took charge of the plan’s implementation and evaluation, side-lining central organs of state economic planning (Haggard 1994; Clifford 1998; Graham 2003, 29). Existing legislation limiting trade union activities was both tightened and expanded, while political demonstrations against the Park regime (1961–79) were outlawed (Kim 1975; Hart-Landsberg 1993; Shin 2003, 98–101). Moreover, a state-orchestrated campaign of mass indoctrination, rural development and factory worker disciplining, the Saemaul Movement, was launched to complement the massively attended programmes of technical education in reproducing the prospective – still to migrate – and active industrial labour force with the productive characteristics required to work as an appendage of the machine or in large-scale assembly operations (Choi 1981, 181–192; Bello and Rosenfeld 1992; Shin 2003, 104).

The degree of diversification of Korean export-oriented industrial production emerging throughout the 1970s drive into HCIs was remarkable, even for East Asian standards (Schive 1990). Nevertheless, despite their singularities, the industrial branches growing the most and carrying out the deepening of the Korean manufacturing base shared one

specific characteristic. All required the coordinated mobilisation of large masses of semi-skilled labour power to work as an appendage of increasingly automated and computerised machinery systems (for example, in the continuous-flow industries like steel and chemicals), or in manual assembly operations such as in microelectronics and shipbuilding.<sup>6</sup> Indeed, this was irrespective of the type of value-chain “governance” structure (whether it involved off-shoring or subcontracting), or capital’s origin (whether it was foreign- or nationally-owned, privately- or publicly-controlled).

Yet not every sector promoted through the HCIs Plan enjoyed the same level of success during the 1970s or thereafter. Some sectors and projects did not yield positive outcomes, or did so only in the very long term. In general terms, the relatively unsuccessful sectors were those sectors intensively using raw materials and energy, like the petrochemical and aluminium industries, and those still requiring a relatively skilled workforce, like the mechanical industries. The fertilisers industry was a prime example of overambitious investments in a resource-intensive sector. Based on naphtha instead of natural gas, the competitiveness of the Korean fertiliser industry was highly vulnerable to oil-price changes, such as those occurring in the early 1980s (World Bank 1987, 46). Being highly intensive in electricity and bauxite, neither of which was available at low cost in Korea, the aluminium industry followed a relatively similar fate. Hence, the largely state-owned Korea Aluminium Company, unlike steel-producer POSCO, never managed to compete successfully in global markets against producers with access to both key inputs at below international prices (Stern et al. 1995, 140–142). Investments in the heavy machinery industry, particularly in the Changwon complex, also sharply overestimated Korean and world demand for electrical generators and equipment, and failed, in general, to produce competitively-priced products (World Bank 1987; Stern et al. 1995, 112–116). Likewise, despite large investments in motor-vehicle production facilities, labour productivity in the sector remained low by international standards, and local producers were unable to compete internationally.<sup>7</sup> In contrast to continuous-flow industries, where the production was already almost fully machine-paced and know-how materialised in the equipment, most durable consumer goods and mechanical industries were still relatively skill-intensive, with much of the know-how being tacit, embodied in the engineers and technicians who constituted the bulk of the workforce. These types of industrial wage-labourers were not available in Korea in large numbers and at low prices (World Bank 1984, 69).

Hence, the deepening of Korean industry throughout the 1970s was not simply the result of state planning or institutional design. That, in some cases like shipbuilding and electronics, state intervention reinforced already fast-growing private ventures, and that the different branches of the HCIs exhibited dissimilar performances and varying degrees of commercial success, despite being promoted in the same form, seems to confirm the claim being made here – namely, that state support was neither the single nor the most important force behind the impressive process of Korean industrial development during the 1970s. It was a *necessary* but *not sufficient* condition, as several authors claim (see Chang 1993; Amsden 1989). Indeed, all sectors included in the HCIs Plan had been unsuccessfully promoted since the first five-year plan was launched in the early 1960s, further indicating that the drive for self-sufficiency and geopolitical considerations were also not the main factors explaining their successful development during the second part of the 1970s (Haggard 1994, 41–42). However, neither could have internationally competitive HCIs arisen in Korea without wide-reaching, and often “inefficient,” state actions fostering the concentration of industrial capital and accelerating learning processes, as

suggested by other authors (see World Bank 1987, 45–48). The Korean state's actions were *necessary* mediations in the development of the global process of capital accumulation, through the formation of the NIDL and the concomitant determination of Korean capital as a producer of heavy industrial and electronic goods for world markets.

Unsurprisingly, the Korean HCIs Plan showed some specificities, vis-à-vis similar plans then implemented elsewhere in the developing world, such as Brazil, that expressed the specificities of the national process of capital accumulation of which it was a concrete form of realisation. Crucially, as the local industry was already largely exports-oriented, the state there attempted to promote, against the advice of international cooperation agencies like the World Bank, the construction of plants with the scale necessary to use world-markets technological standards (World Bank 1993; Stern et al. 1995, 185). Moreover, the direct economic and military competition with North Korea, where state-ownership of capital resulted in the early development of large-scale heavy industry, was probably also important in shaping the singularities of Korean industrialisation vis-à-vis the other East Asian Tigers, namely, the extended state-led development of the HCIs. Yet, POSCO's first steel plant was expanded twice until it reached the "theoretical" minimum efficient scale, and twice more until it reached the average Japanese steel mill capacity. It is doubtful that these expansions would have ever taken place had the first stages not been commercially viable. And, the first ethylene cracker built in the Ulsan petrochemical complex was half scale of the world market; it was only in the late 1970s that a plant of such size would be constructed in Yochun.<sup>8</sup> Conversely, industries where overcapacity existed would be streamlined, mediating economic crises, in the subsequent period.

In sum, the specific basis of the process of valorisation of capital invested in the HCIs was, as in light manufacturing, the use of an internationally cheap and highly disciplined labour force to perform simplified work processes. The productivity of this type of labour power was significantly enhanced through the use of the increasingly computerised and automated equipment available in global markets. Had Korean labour power been of different quality and price, or had the technological conditions been different, as they had been during the previous decades, the HCIs Plan would have not been as successful as it was, if successful at all. Nor, most likely, would Korean industrial capitalists have been as quiescent with state policies as they allegedly were.

*The neo-liberal stage of EOI (since 1980).* The 1979–82 increase in international interest rates, and the concomitant global economy recession, affected Korean society as much as any other developing country. As export demand slowed and credit inflows contracted, economic growth decelerated sharply. Real wages thus fell and working conditions worsened, softening the impact of those developments on capital's profits. As ever before, the increase in the rate of labour's exploitation came about through the violent repression of any form of working-class opposition to the increasingly authoritarian regime carrying out the process (Hart-Landsberg 1993; Clifford 1998, 157–168).

As occurred in many other developing countries, the early 1980s global economic crisis triggered in Korea a process of financial-sector and trade liberalisation (Gills 1996; Pirie 2008, 76–104). This process, however, did not express there the unsustainability of a highly diversified, domestic-markets-oriented industrial sector, as was the case in Latin America (Grinberg 2010). Rather, in Korea these reforms largely realised two other processes. First, the maturation of large parts of its industrial sector, which no longer required extended market protection and state support for their normal reproduction.

Second, the phasing out of other parts that proved to have had limited commercial potential (such as aluminium and heavy-machinery industries), and the scrapping of excessive productive capacity in otherwise viable sectors (such as motor vehicles and shipbuilding); as these could no longer be supported in the international context of the early 1980s. Hence, market liberalisation reforms were not the abstract opposite of state policies related to the big push of the 1970s, as often claimed (see World Bank 1987; Chang, Park, and Yoo 1998). Instead, both seemingly different policy orientations were two inherently united, necessary moments in the development of the Korean process of capital accumulation. The self-regulating process of capital accumulation on a global scale came about through the actions, seemingly contradictory, of the Korean state. As in most “reform” processes, the international-cum-local crisis precipitated and accelerated these “free-market” reforms. The fact that many of them were deepened rather than reversed when the context improved shows, however, that their necessity, for the process of capital accumulation, transcended the immediacy of the crisis that triggered them.

Yet, despite the trend towards free-market reforms, “nascent” industrial branches like electronics and motor vehicles remained strongly supported (Chang, Park, and Yoo 1998; Green 1992; Mathews and Cho 2000, 119–135), while developing the capacity to compete in world markets under the same specific base as the HCIs, namely, the use of a relatively cheap and highly disciplined labour force (Bello and Rosenfeld 1992; Williams et al. 1994, 61–63). Effectively, like the HCIs before, the emergence of durable-consumer goods production for world markets resulted from the further appreciation of the Japanese labour force, contemporary advances in the automation and computerisation of large-scale (repetitive-flow) manufacturing associated with the ongoing microelectronics revolution – crucially the development of industrial robots and computer numerically-controlled machine tools – and from the previous improvements in the quality of the local workforce. Combined, these resulted in strong increases in labour productivity and international competitiveness. On these bases, Korean industrial production expanded strongly after 1983, as global demand recovered and exports became increasingly price-competitive. The strong expansion of high value-added industrial exports allowed the Korean economy to grow robustly, while reducing sharply its large external debts (Collins and Park 1989).

Processes related to neoliberal reforms in Korea also contrasted with contemporary experiences in the industrially-advanced countries, where they realised, among other trends, the acceleration of the process of differentiation in the conditions of reproduction of the industrial labour force within these societies (Iñigo Carrera 2008, 72–76). During most of the 1980s, wage differentials amongst Korean industrial workers declined, albeit from highly unequal bases (Lee and Lindauer 1997, 60–64). Manual worker wages grew strongly across the board and working hours fell, as the process of industrial deepening manifested itself in the increase of the demand for semi-skilled labour power which could no longer reproduce normally (that is, with the physical and mental characteristics that capital required) with payment and working conditions corresponding to its origin as a surplus peasant population. This process of realignment in the conditions of trade and consumption of labour power, necessary for the normal reproduction of the process of capital accumulation, came about through the end of open political repression of the Korean working class, the restoration of pseudo-democratic institutions of government, and the subsequent sharp increase in industrial actions by core manual workers. Working-class advances, however, would not last indefinitely. At the turn of the decade, they were

violently brought to an end by, hitherto permissive, state repressive forces, when, combined with the ensuing global economic recession, they began to hurt the normal profitability and reproduction of industrial capital. Moreover, as a form realising the reproduction of segmented labour markets, trade unionism remained based at the company level, now even more so with the creation of unions in the hitherto off-limits *chaebol* sector, while labour's involvement in national party politics, and hence working-class solidarity, remained limited (Koo 2001, 153–192).

After the global economic slump of the early 1990s, the Korean economy continued its growth process and its upgrading path to high-technology industries as a form of realising the global unity of the process of capitalist development through the NIDL. As had been the case during its earlier stages of industrial development, the emergence of these sectors resulted not only, as often claimed, from previous, and ongoing, improvements in the quality of the local labour force, but also, and crucially, from its low cost (relative to established producers) and high productivity, resulting from its productive characteristics and the further automation of production processes, and consequent simplification, standardisation and routinisation of factory work (see Brown and Campbell 2001; Balconi 2002 for the developments in the microelectronics industry, the leading export sector in 1990s Korea).

During the 1990s, other developments further reduced the overall degree of state intervention in the Korean economy. Capital-account liberalisation then became necessary to capture a portion of the rapidly expanding global credit supply. Inflows of loanable capital became vital to fund the substantial investments made by Korean industrial firms in light of the emerging competition in world markets posed by companies located in countries with large supplies of cheaper and, arguably, equally disciplined labour power (in China and Southeast Asia). Indeed, not yet having the capacity to produce competitively priced high-end complex industrial goods, the Korean economy entered into a severe crisis when, in 1997–98, international interest rates peaked and capital markets dried up for developing countries like Korea at the same time that the prices of its main exports (for example, standard memory chips, ships and steel products) collapsed with the ensuing global economic downturn.

The transformation of a process of capital accumulation based, like in Korea, on the exploitation of relatively cheap and disciplined labour power into one that is based on the cutting-edge development of basic scientific knowledge and technology by doubly-free workers (that is, based on the active production of relative surplus value) requires not only massive investments in research equipment and the widespread and extensive upgrading of labour's skills, as had been occurring in Korea. Wage-labourers performing vanguard research in basic sciences and frontier technologies such as the design of microchip logic structures and software languages need to perceive themselves as completely free individuals who are not closely tied to any hierarchy, and who are able to express their creative individuality in the labour process they perform (see Ernst 2005). Though not an unsurmountable barrier, these productive characteristics are somehow in contradiction to the ones that had been behind the Korean economic "miracle."

Yet, as early as mid-1999, the Korean economy was already in the path of a new export-led recovery. However, despite the many reforms of neoliberal inspiration implemented in the aftermath of the financial crisis (Pirie 2008), the bases for the post-crisis growth have been more contradictory than ever before. Not only growth has been weaker than in the previous expansionary periods. Unlike then, industrial exports have been

supported by a strongly undervalued currency and large-scale lending to overseas consumers (mostly US capital and state), the result of both the central bank's interventions in the foreign-exchange market and its reserve accumulation policy (Aizenman and Glick 2008; Moon and Rhee 2009, 62–65). Moreover, the post-crisis recovery has also been based on the renewed, and strong, differentiation of the wage structure (now largely between permanent and temporary workers and between employees in large and small- and medium-size firms), and the increased casualisation of the labour force as indicated in Figure 4 (see also Chang and Chae 2004; Hwang 2006, 7).

## Conclusions

This article has analysed the process of economic development and associated political transformations in Korea since the mid-1960s. To begin with it was claimed that, as in the rest of East Asia, capital has accumulated there producing industrial goods for world markets with the relatively cheap and disciplined local workforce. This has been particularly productive in simplified labour processes, though in increasingly advanced sectors of production. This modality of accumulation resulted from changes in the forms of production of relative surplus value on a global scale, the concomitant transformation in the productive attributes of the collective worker of large-scale industry, and the specific characteristics of East Asian labour due to its historical origin in wet-rice agriculture. The article then identified the main political and economic forms through which the structural transformation of Korean society came about, throughout the post-mid-1960s period. This analysis supported the claims made about the specific characteristics of East Asian processes of capitalist development, and showed the economic content of those state policies and institutions signalled by mainstream accounts as the driving forces of the process of structural transformation. In doing so, the analysis revealed the intrinsic unity of the different political-economy processes carrying out the transformation of Korean capitalism. In particular, the analysis showed the historical unity not only between the ISI and EOI eras, but also, within the latter, between the supposedly liberal 1965–72 period, the “developmentalist” 1973–79 years, and the re-liberalising 1980s and 1990s. Moreover, the analysis also revealed the underlying continuity between the period of strong “miraculous” growth, the 1997–99 economic crisis in which it ended, and the subsequent export-led recovery. The article concludes that this trajectory expressed the increasingly contradictory dynamics of the Korean process of capital accumulation under its post-mid-1960s bases.

## Notes

- <sup>1</sup> It must be stressed that this does not mean that the state develops independently and autonomously from the capital relation to become then functional to the latter. On the contrary, the capitalist state, it is argued here, is itself a concrete mode of existence of the social relation of capital.
- <sup>2</sup> Wet-rice cultivation is highly “labour-intensive,” notably during implantation and harvest periods, and, crucially, whatever their extent and complexity, irrigation systems require – unlike dry-land agriculture or husbandry – the “cooperation at various levels between the farmers in a single water control unit” (Bray 1986, 67).
- <sup>3</sup> In its simplest determination, ground rent is surplus value appropriated by landowners, due to their monopoly over natural conditions of production that increase labour productivity in the primary sector, or permit production altogether, and cannot be controlled by normal capital. The surplus value that constitutes ground rent is thus rested from that available for capital accumulation. See Marx (1981, 779–916). To the extent that

rent-bearing commodities are consumed overseas, ground rent constitutes an inflow of social wealth to commodity-producing countries.

- <sup>4</sup> The main problem with the approach to the NIDL in Fröbel, Heinrichs, and Kreye (1980), and the cause of their inability to grasp fully the transformations at stake, including its dynamics and the associated inter-regional differentiation, is that they failed to locate their origin in the increased mechanisation of large-scale industry and its impact upon the skills of the different segments of the industrial labour force. On the contrary, they located the origin of the transformations in the intensification of the manual division of labour.
- <sup>5</sup> This does not mean that the first group of countries has exclusively concentrated within their boundaries skilled workers. First, immigration from “Third World” countries has helped satisfy the increasing local demand for unskilled labour power. Second, the replacement of the “welfare” state with its neoliberal successor has also played its part in the increase in the local supply of this type of labour power (Sassen 1988; Inigo Carrera 2008, 72–6).
- <sup>6</sup> See Jonsson (1995) on the development of the shipbuilding industry and the technical changes favouring its growth during the 1970s – the replacing of riveting with welding, which reduced skill requirements and facilitated block construction methods, and the spread of equipment mechanisation.
- <sup>7</sup> Exports accounted for a small fraction of total output and were made of “dated compacts of execrable quality dumped at below costs prices” (Noble 2005, 10).
- <sup>8</sup> See Auty (1991, 26) on the experience of the Korean petrochemical sector.

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