

Financialization or capitalization? Debating capitalist power in South Korea in the context of neoliberal globalization

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Abstract

The article reviews debates concerning financialization in South Korea, with a focus on on-going arguments between liberal, post-Keynesian, institutionalist and Marxist economists. It argues that post-Keynesian and institutionalist perspectives in particular neglect important class processes through which the financial circuit operates within the Korean economy, especially the power of Korea's large, family-led conglomerates, or chaebol. In order to build upon Marxist approaches to Korean finance, we argue that Nitzen and Bichler's approach to the 'capitalization' of capitalist class power provides a useful heuristic for understanding the differential power of Korean chaebol and their integration into global capital.

Keywords: financialization, capital as power, institutional political economy, Marxian economics, post-Keynesian economics, chaebol, South Korea, developmental state

Introduction

The economic crisis of 2007-9 and the slow recoveries, recessions, and austerity policies that have followed in its wake has re-ignited interest in the topic of financialization: a term used as a shorthand for the increasing prominence of financial motives and financial actors in the economy, including stock markets, shareholders, institutional investors, financial instruments, and macroeconomic policies that benefit financial capital (Epstein 2005; Lee et al. 2009). On the one hand, a consensus has emerged that financialization is perhaps one of the most powerful processes shaping the global economic landscape: one that can be witnessed through the enormous expansion of financial assets and financial activity, the profitability of financial sector, the rising importance of financial profits for non-financial corporations, etc. On the other hand, there continues to lack a common understanding or clear conceptual definition about what constitutes the *nature* of financiali-

zation and what it says about contemporary power relations in capitalist society (van der Swan 2014, 101; Lapavitsas 2011). Definitions of financialization and interpretations of its sociopolitical implications are as diverse as political economic schools, ranging from orthodox Marxists and the Monopoly Capital School to the Regulation School, Post-Keynesians, Science and Technology Studies and many other heterodox and synthetic approaches. This pluralism has stimulated a range of empirical studies of finance and its effects at a variety of different scales: from the everyday scale of the body up to the global. Nevertheless, as we discuss in this essay concerning debates surrounding financialization in South Korea, there remains a tendency in much of the literature to posit financialization in terms of the ascendancy of the financial over the real economy (Epstein 2005; cf. Stockhammer 2008; 2010): a view that presumes a functional separation between finance and industry that can be problematic for the wider study of capitalist social relations, much less political strategies that seek to address power and inequality. Furthermore, such a view of financialization risks turning the process from an *explanandum* into an *explanans* –an external cause rather than something that itself needs to be explained –as happened with studies of globalization in the late 1990s and 2000s (van der Swan 2014 pp; cf. Rosenberg 2005).

Instead of presuming the autonomy of the financial sector over the rest of the economy, recent work by geographers and other critical social scientists has called for greater attention to the globally variegated and place-specific structural and political-economic dynamics of financial processes (Buckley and Hanieh, 2014; Seo 2013; Peck and Theodore 2007). This work has focused on how financial processes interact with existing institutional, urban, and class relations involved in configuring capitalist accumulation in diverse contexts instead of embracing simplified, parsimonious models of financial hegemony. The present paper seeks to complement this wider effort, and shares its sentiment that financialization should be regarded as an uneven geographical process. Furthermore, as we argue below, when approached from the perspective of places outside of the financial centers of the North Atlantic, the limitations of certain idealized understandings of financialization -- particularly those premised on the functional separation of financial from industrial capital -- to describe economic processes, such as those we discuss in the context of South Korea, become clear. While, certainly, many of the above-mentioned phenomena associated with financialization are observed –such as increases in asset prices and an increasing proliferation of derivatives and other financial instruments (Kang 2013) – it becomes much more difficult to posit a straightforward ascendancy of ‘financial economy’ over ‘real economy’ in the form posited by many Keynesian theories of a ‘rentier’ class that is structurally distinct from ‘productive’ capital.

Specifically, the focus of this paper is how financialization has been both experienced and debated in South Korea where it has become a hotly contested topic. The 1997 ‘Asian’ financial crisis and its after-effects on the Korean economy stimulated much of

this debate in particular (Pirie 2015). Intellectuals have debated financialization in South Korea from perspectives that are cognate to debates elsewhere, with institutional political economy, post-Keynesian and Marxist economics providing some of the dominant narratives, as we discuss below. As the political stakes involved in understanding the role of finance in the Korean economy are high, the conflict between these perspectives has been intense. However, in our opinion, some of the understandings of financialization advanced in this debate have been deeply problematic in that they obstruct or neglect important capitalist power relations that shape economic inequality and political power by underestimating the power of Korea's large family-led conglomerates known as the *chaebol* – which include such globally recognized firms as Hyundai, Samsung, and SK among others. Therefore, in what follows, we review the main approaches to financialization that have dominated intellectual discussion of neoliberal globalization in South Korea, and assess the relative strengths and merits of each. We then suggest an alternate formulation of the process that better accounts for the power of the *chaebol* by adopting Nitzan and Bichler's capital-as-power approach. To this end, this paper makes an empirical study of the transformation of Korean capitalism over the last 30 years in order to show how financialization in South Korea has been tightly coupled with neoliberal globalization. Here we seek to show how Nitzan and Bichler's concept of 'capitalization' provides a useful tool for understanding the transformation of Korea's dominant capitalist groups and their integration into global capital in a manner that contradicts the dichotomous, trade-off relation between 'financial capital' and 'industrial capital' that underlies much of the literature on financialization (Neufield 2012). Their perspective on 'capital as power', we argue, can thus help expand and complement Korean debates on financialization, and, by extension, potentially aid political strategies oriented toward confronting the inequality and social polarization that have accompanied economic restructuring in South Korea.

1. Debating financialization in South Korea

The Asian financial crisis of 1997-98 wreaked havoc on South Korea's political economy, panicked its entire population, and continues to be understood by many as the worst social disaster since the Korean War. As a consequence of the crisis, hundreds of thousands of businesses, including many of Korea's large, family-led conglomerates, the *chaebol*, went bankrupt, virtually all banks were bailed out and 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 and the Washington Consensus of liberalization, deregulation, privatization, and flexible labour, originally set to be a gradually rolled out, accelerated into a radical agenda to transform the foundations of the Korean economy. The severity of the crisis and the depth of the social

change created in its wake thus ignited heated debates among left-liberal intellectuals, politicians and social movements.

Despite intense differences over the causes of the Asian financial crisis, left-liberal intellectuals quickly reached a consensus that a qualitatively different society emerged in the wake of the 1997 crisis. The post-1997 structural change was characterized as the transition of the Korean political economy from a “high-economic growth model with high investment” to a “low-economic growth model with low investment” (Ryu & Ahn, 2010). This shift coincided with the intensification of social inequality: not only the gap between rich and poor but also that between organized and unorganized labour widened and have continued to widen ever since. As a consequence, these economic dynamics have led Korean intellectuals to continue debate the exact nature of this transition and its relationship with the 1997 crisis, about which they remain divided. The main views on the subject can be grouped into three competing camps divided between mainstream liberal economics (Keynesian-neoclassical synthesis), Post-Keynesian / institutional political economy, and Marxist approaches.

The liberal camp finds the causes of the 1997 crisis, the subsequent slowdown of the Korean economy, and the intensification of social inequality in the cronyism and anachronistic management of the Korean *chaebol* groups (Chung, 1999; S. Kim et al, 2007; S. Kim, 2004; G. Kim, 2001; Jang, 1998; 2001). This camp has thus campaigned to toughen regulations on these groups’ business activities, and to reform their governance structure by strengthening (minority) shareholder rights and eliminating the elaborate cross-shareholding arrangements used by *chaebol* families to maintain managerial control over their affiliates. This campaign aimed to introduce a system of checks and balances into the boardrooms of the Korean *chaebol* and thereby create a level playing field between large and small firms. Furthermore, the liberal camp believes that these proposals can be implemented by instituting 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). For this reason, members of this camp are called advocates of “shareholder capitalism.”

By contrast, the post-Keynesian and institutionalist camp regard foreign financial capital as the origin of the problems that have afflicted the Korean economy since 1997 (Chang, 2007; 2004; 1998; Shin and Chang, 2003; Cho, 2006). This camp argues that the Korean economy, which used to be led by “productive” industrial capital, has become increasingly subordinated to the logic of foreign financial capital: an actor that has no interest in industrial development and pursues only short-term profits and high dividends. In other words, the “financialization” of the Korean economy is blamed for the 1997 crisis, its weakened engine of growth, and the intensification of social inequality. Therefore, in order for industrial capital to increase its long-term investment and promote economic development, they demand the Korean government help the *chaebol* families (i.e. major

shareholders) secure managerial control over their conglomerates by toughening regulations on (foreign) financial capital.

The Marxist camp, criticizing the abovementioned two camps, argues that the cause of the 1997 crisis and the structural changes made in its wake should be understood in the context of the long-term tendency of the rate of profit to fall (Jeong, 2010; 2005; 1997; C. Kim, 2006). From this perspective, the 1997 crisis was the culmination of a structural crisis in the regime of capital accumulation, one that originated from the “increasing inefficiency inherent in growth based on factor inputs,” the dramatic decrease of “the rate of exploitation” after the fall of the military dictatorship in 1987, and the decline of profitability innate to capitalist development (Jeong, 1997: 104). This perspective thus concludes that the neoliberal restructuring of the Korean political economy should be understood as an attempt by Korea’s capitalists to restore the rate of profit to the heights reached in boom period of the mid-1980s. Furthermore, for Marxist economists such as Jeong (2005, 15), capital's “intense frontal attack of capital on labour” is seen as the most important part of the post-1997 restructuring.

At the heart of these debates is the question of financialization. Whereas the post-Keynesian and institutionalist camp takes an outright ‘anti-financialization’ stance, depicting it as a burden upon the real economy, the liberal camp arguably embraces financialization by promoting a shareholder value based view of the firm and anglo-american corporate governance practices. The belief here is that financialization would serve to strengthen the power of shareholders and by extension professionalize management, thereby curbing the discretion of *chaebol* families and enforcing shareholder value. Yet, this pro-financialization orientation is only implicit in the anti-*chaebol* campaigns of the liberal camp. In contrast, the post-Keynesian and institutionalist camp and the Marxist camp have explicitly debated the “financialization” of the Korean political economy. Thus, in the next section we review, in greater detail, the arguments of three leading opinion makers in the debates on the financialization of the Korean political economy: Ha-joon Chang, Bok-hyun Cho, and Seong-jin Jeong who represent an institutionalist, a post-Keynesian, and a Marxist view respectively.

2. Korean financialization: Three perspectives

2.1 Ha-joon Chang: Financialization as a drain of national wealth

Ha-joon Chang's contribution to the debate on financialization, as well as those of his associates, is oriented strongly toward producing criticism of the mainstream liberal camp. Instead of seeing the financial crisis as a problem of moral hazard, they argue that the crisis was the result of an abrupt and deliberate policy change that punished high levels of debt (Shin and Chang 2003, 88). These policies replaced the bank-based lending and in-

dustrial policy-guided loans of the developmental state with the speculative shareholder model favoured by foreign speculative capital. The result was that Korean corporations have become focused on paying out dividends at the behest of their shareholders instead of investing more wisely on entrepreneurial activities (see Korea Herald 2011): a transformation that has been detrimental to the Korean economy. Chang argues that if shareholder pressure continues, “professional CEOs would be too afraid of stockholders to make reinvestments. They would have no choice but to recruit as many non-regular workers as possible and attempt to make do without employee training simply to seek short-term profits” (Chang, quoted in Lee 2012).

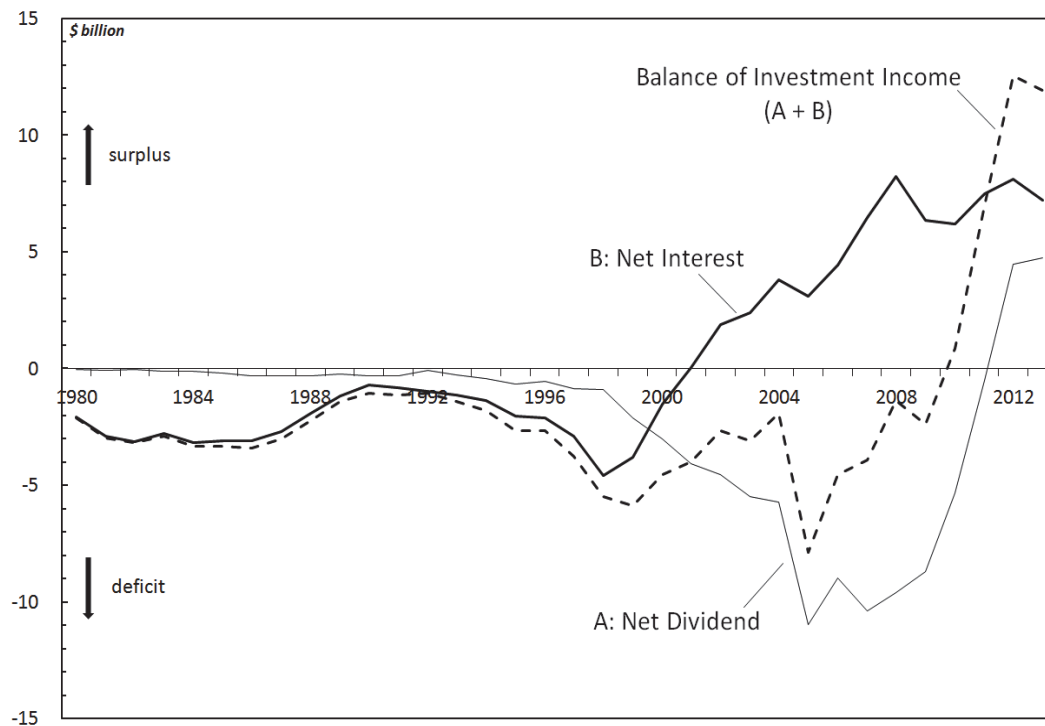


Figure 1 The Balance of Korea's Investment Income Account

Source: Bank of Korea

In our opinion, while Chang is correct to point out that the institutions of the ‘high-debt’ model, such as industrial policy-oriented loans and highly leveraged corporations, have been restructured, his concerns that the increase in dividends is sign of the dominance of foreign financial capital are largely unfounded, and need to be contextualized in relation to the restructuring of the Korean economy since the Asian financial crisis. Fig 1 shows the balance of Korea's investment income account since the early 1980s, with the balance further divided into net dividend income and net interest income. Certainly, Korea's dividend payments to foreign investors have increased enormously in the

post-1997 period: Korea paid on average \$10 billion in dividends per year to foreign investors during the 2000s, while it paid \$269 million in the 1980s and \$956 million in the 1990s. At the same time, Koreans' overseas dividend income during the 2000s averaged \$2.9 billion per year: a nine-fold increase from \$306 million of the 1990s. Nonetheless, this income was dwarfed by Korea's dividend payments to foreign investors. As a result, Korea suffered huge deficits in its net dividend-income account in the 2000s—on average \$7.1 billion per year during the 2000s.

However, contrary to the outcry over the drain of national wealth through dividend growth, Korea has been running high investment income account surpluses since 2010. 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 net interest-income surplus has risen rapidly. Over the last ten years (i.e. during 2003-2013), Korea's net interest-income surplus averaged \$6.1 billion per year, while it paid on average \$5.1 billion in net dividends per year to foreign investors. What is more, Korea's net dividend income turned positive in 2012. All in all, Korea's investment income account balance did not deteriorate but improved in the post-1997 period: from a \$5.5 billion deficit in 1998 to an \$11.9 billion surplus in 2013.

It is true that the inflows of foreign investment have increased enormously since the 1997 crisis; consequently, foreign-investment income in general and foreign-dividend income in particular have risen rapidly. This fact brings some credence to the arguments of Chang and his associates who argue that the promotion of shareholder value, the largely neoliberal response to the crisis, and increased portfolio investment by foreign funds represent a finance-dominated economy. Yet the advocates of financialization-as-wealth-drain 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. For instance, according to Korea's International Investment Position (Bank of Korea), the sum of Korea's overseas investment assets increased from \$74 billion in 1994 to \$964 billion in 2013. It increased 13-fold, while foreign investment assets in Korea rose nine-fold from \$112 billion to \$997 billion during the same period. It seems that the increase of Korea's foreign-currency reserves played a significant part in the huge increase of Korea's overseas investment assets. The foreign-currency reserves have risen from \$22 billion in 1994 to \$346 billion in 2013. It is known that much of these reserves are invested in US Treasury securities, from which Korea earns interest income.

The improvement in the balance of Korea's investment income account also has to be understood in relation to the improved balance sheets of Korean firms after the 1997 crisis by reshaping their capital structure—a shift from a system of a high debt-to-equity ratio to that of a low debt-to-equity ratio. According to the Bank of Korea, the 10-year average aggregate debt-to-equity ratio of Korean manufacturing firms was 362 percent in

the 1980s and 303 percent in the 1990s. It dropped to 130 percent in the 2000s. In this way, Korean firms have radically reduced their interest expenses, thereby significantly increasing ordinary income. Between 2000-2009, as we can see from Fig. 2, the ratio of interest expenses to sales in Korea's manufacturing averaged 2.1 percent; the ratio of income before taxes to sales averaged 5.0 percent. The 10-year average of the former in the 1990s was 6.2 percent and that of the latter was 1.4 percent (Bank of Korea).

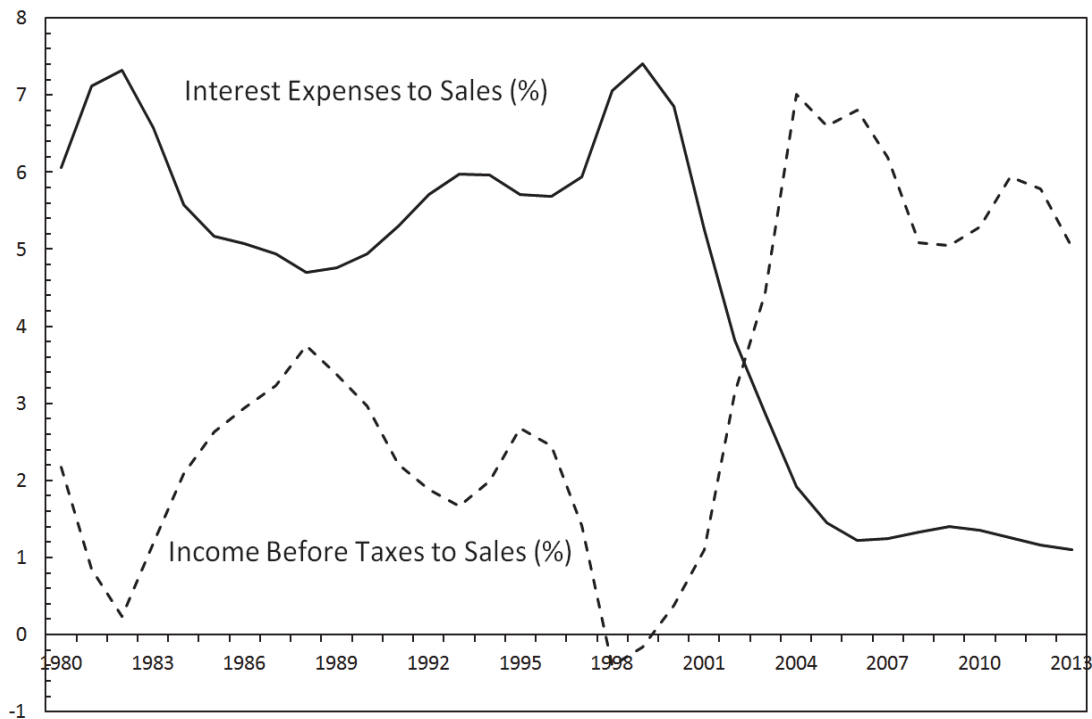


Figure 2 The Results of Reshaping Capital Structure of Korean Manufacturing Firms

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

Source: Bank of Korea

Since much of the debt owed by firms before the crisis was to foreign creditors, an argument can be made that the relative decrease in the interest expenses of Korean firms has made them less susceptible to foreign financial influence. At the same time, the increase in the foreign ownership of domestic stocks, resulting in the increase in Korea's dividend payments to foreign investors, has strengthened the power of foreign investment.

The overall effects of this transformation can be difficult to discern as the relative power of the different actors involved cannot be measured simply in simply quantitative terms. However, we can examine the degree to which Korea's national wealth has been drained by foreign speculative capital. According to the Bank of Korea, 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 the period of the ‘developmental state’ praised by Chang 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.

Finally, it is also doubtful that ‘domestic industrial capital’ is less oriented towards dividend payments than ‘foreign financial capital.’ If dividend payments are measured relative to corporate profits, i.e. the ratio between dividend payments and net profits, we may have a very different conclusion. 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. This leads to a conclusion that the increase of dividend income in the absolute terms has originated not from propensity to pay dividends but from the expansion in the profit of Korea’s business universe.

The empirical analysis above shows that Chang's financialization as wealth drain thesis is not well founded. The main problem with his argument, however, is not merely in the empirical data, but also in its conceptualization of financialization, which largely ignores the class processes through which the financial circuit operates within the Korean economy, especially the power of the *chaebol*, which has grown considerably despite efforts to promote markets for corporate control that might limit the power of controlling families. Finally, the financialization as wealth drain perspective also overlooks, in part, the fact that the neoliberal reform of the Korean political economy was not simply a one-way foreign imposition despite the influence of the IMF. Korean politicians have long promoted neo-liberal globalization in an attempt to enable Korean conglomerates break the domestic ‘envelope:’ the state restrictions on foreign borrowing and exchange that protected Korean capital but that had, by the early 1990s, become a fetter on their further expansion. At the same time, high profile economic reformers within civil society had hoped that the development of a ‘free’ capital market would prove check and balances to the monopoly power of the *chaebol* (Doucette 2015). In the next section, we thus turn to studies of financialization by the post-Keynesian and the Marxist camp within South Korea, which have demonstrated a better grasp of these subtleties than Chang and his associates.

2.2 Debates between post-Keynesian and Marxist camps

While Ha-joon Chang focuses on the ‘unproductive, speculative’ nature of (foreign) financial capital, Bok-hyun Cho, a prominent post-Keynesian, emphasizes that the national economy has witnessed a power shift from industrial capital to financial capital.¹ Influenced by the work of critical scholars of financialization such as Aglietta (2000), Demirguc-Kunt and Levine (2001), Epstein (2005), Krippner (2005), etc., Cho has sought to empirically demonstrate the extent of the Korean political economy’s transition to a finance-led capitalism. His main arguments (2007; 2006; 2005) can be summarized as follows. First, the financial structure of the Korean political economy has shifted from a banking-centred to a capital-market-centred one. Second, at the same time, finance has become the dominant source of profits to such an extent that the Korean political economy deserves the name of finance-led regime of accumulation. Third, short-termism has come to dominate financial markets, thereby increasing the volatility of financial markets dramatically on the one hand; discouraging long-term sustainable investments in the real economy on the other hand.

To support these arguments, Cho has closely documented the enormous expansion of financial assets and financial activity, the increasing profit share of financial sector, the rising importance of financial profits for non-financial corporations, sharp increases in dividend yield, decreases in industrial investment, and other indicators of financialization. Indeed, the size of Korea’s stock market, measured by the ratio of the market capitalization of all listed corporations to nominal GDP, had increased about 15-fold over the last 30 years: the ratio was merely 0.057 in the early 1980s; it became 0.84 in the early 2010s.² The activeness of financial markets, measured by the ratio of annual stock-market turnover to nominal GDP, had also risen dramatically over the same period. The ratio was 0.035 in the early 1980s; the figure had increased 28-fold to 0.99 in the early 2010s. Furthermore, the conspicuous decrease of investments in the real economy is observed. The ratio of the gross fixed capital formation of the private sector to nominal GDP in the early 2010s dropped by about 7 percent compared to its peak early 1990s: the ratio in percentage terms decreased from 32 percent to 25 percent (see Fig. 3).³

¹ While Cho identifies himself as a post-Keynesian economist, his work has been influenced by a variety of heterodox approaches such as the regulation school and Marxist economics.

² The four-year average of 1980-1983 is compared with that of 2010-2013.

³ All the data in this paragraph are from the Bank of Korea.

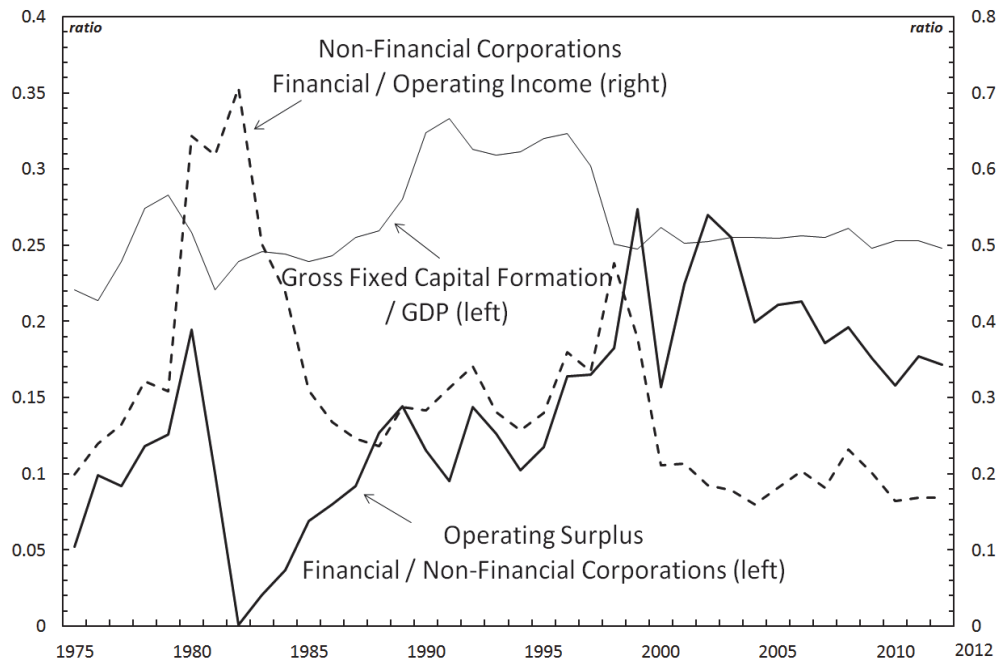


Figure 3 The Mixed Results of Financialization?

Source: Bank of Korea

However, some of Cho's indicators contradict his argument that Korea has transformed into a finance-led regime of accumulation. For instance, as we can see from Fig. 3, the ratio of the operating surplus of financial corporations to that of non-financial corporations has actually decreased over the past ten years. The ratio dropped from 0.27 in 2002 to 0.17 in 2012. It also needs to be noted that the overall level of the ratio of the financial income to the operating income of non-financial corporations during the 2000s is lower than that of the 1990s. The ratio averaged 0.33 during the 1990s; the 10-year average of 2000-2009 was 0.19. Even if the period of the 1997 crisis is excluded, when we compare the 10-year average of 1986-1995 with that of the 2000s, the former is still much higher than the latter: 0.28 to 0.19. Therefore, a number of Korean political economists have rejected the characterization of Korea's post-1997 restructuring as the establishment of a finance-led accumulation regime (see S. Jeong 2010, 2006, 2005; C. Kim, 2006; S. Jung, 2006). For instance, Seong-jin Jeong (2010, 156-7) from a Marxist perspective points out (1) that, "although Korean non-financial corporations have always been highly indebted, their total liabilities have become lighter rather than heavier since the 1997"; (2) that "there is also little reason to believe that non-financial corporations have fundamentally altered their methods of finance away from bank loans and towards direct issuance of equity"; (3) that "financial assets of Korean households are overwhelmingly composed of bank deposits" and "the share of equities in total household financial assets has decreased from 17.2 per cent in 1975 to 5 per cent in 2005"; (4) that "the ratio

of financial outflows—that is, the sum of interest, dividends and rent relative to the operating profits of non-financial corporations—has remained stable”; (5) that “in the so-called Korean ‘high-debt model,’ the financial profitability of non-financial corporations has generally been lower than real profitability due to continuous financial outflows, especially in the form of interest payments.” Instead of finance-led accumulation, Jeong argues that the Korean political economy has been caught in a state of limbo in which “the old statist accumulation regime” became defunct “without its replacement by a new one... such as a ‘finance-led regime of accumulation’ or a ‘knowledge-based economy.’” To understand this conjuncture, Jeong suggests that the understanding of Korea’s financial restructuring in the wake of the 1997 crisis should be situated in the context of the “intensified exploitation of working people,” a phenomenon that he situates not only within domestic relations between labour and capital but also the wider “hierarchical structure and the polarizing tendencies inherent to the structure of the imperialist world economy” (Jeong, 2010, 157-8).

Jeong’s sensitivity to the complex class processes and uneven dimensions of the world economy are germane to our argument mentioned above that the structural and political-economic dynamics of financial processes are geographically variegated at the global level and thus have place-specific dimensions. Furthermore, Jeong’s approach better takes into account relations of exploitation between labour and capital than the post-Keynesian and institutionalist approaches surveyed above do as far as the ‘financialization’ of the Korean political economy is concerned. The dichotomy of industrial and financial capital embraced by these approaches seems too simple and too broad to grasp the dynamic nature of the post-1997 neoliberal restructuring process. In order to grasp this process, we need to delve further into changes in the balance of power among various social groups, not only between capital and labour but also within the ruling class, including global capital. In this regard, the Marxist emphasis on these power relations provides a useful point of departure for understanding the role of finance within the Korean political economy.

In summary, the post-Keynesian and institutionalist camps mistakenly superimpose the characteristic features of financialization in the core, especially in the US, on Korean society. Locked in a dichotomous framework of ‘financial capital’ and ‘industrial capital,’ they ignore the simple fact that it is the *chaebol* (Korea’s large, family-led conglomerates) that dominate the business universe in Korea. While these highly diversified conglomerates consist of both ‘industrial’ and ‘financial’ companies, their profits mostly come from the former. For example, according to the Korean Fair Trade Commission, the profit of non-financial companies of top 10 *chaebol* (in terms of profit) accounted for 94 percent of their total profit in 2013.⁴ The enormous increase of *chaebol* profits, coupled

⁴ In 2012, it also accounted for 94 percent of the total profit.

with the concentration and centralization of capital, in the post-1997 crisis contradict the arguments that have been made for the financialization of the Korean political economy, as demonstrated by the decreases in the ratio of the operating surplus of financial corporations to that of non-financial corporations and in the ratio of the financial income to the operating income of non-financial corporations during the 2000s described in Figure 3. Thus, as far as the ‘financialization’ of Korean political economy is concerned, the point at issue has more to do with how the financial changes made in the wake of the 1997 crisis have made the conglomerates that we associate with industrial capital (i.e. the *chaebol*) stronger than ever. To put it differently, what needs to be examined is the way in which financial restructuring has influenced changes in the configuration of socio-political power, culminating in the enormous increase in profits for the *chaebol*. These changes belie simplistic accounts of convergence to a global, shareholder-driven stock market model of financial accumulation as characterized by the dominance of the rentier over the ‘real’ economy. In contrast, financial restructuring has deepened Korea's export-oriented accumulation regime and strengthened the power of its large family-led conglomerates: an insight commensurate with Stockhammer’s (2012) observation that financial globalization has different channels, with some countries following credit-driven consumption and other deepening export-oriented growth. Furthermore, as Marxist scholars such as Jeong have pointed out, the direct exploitation of workers through the labour process and, indirectly, through the expansion of non-regular forms of employment contract have been crucial in this process.

3. An alternate assessment: Capital as power

3.1 Capital as power: A complementary method

While the Marxist approach draws attention to the importance of class relations to financialization, and is thus an improvement on institutional and post-Keynesian perspectives reviewed above, some Marxist analysis still suffers from the temptation to draw a rigid separation between the ‘real’ and ‘financial’ (fictitious) economies in a way that neglects important aspects of class power within society. In this sense, such an analysis can often ignore the novelty of some phenomenon associated with financialization -- such as rising asset prices, new financial activities, or the increasing valorization of the secondary, urban circuit of capital. At worst, it can assume a one-way, teleological reading of financialization as merely an *external* expression of the antagonism between capital and labour rather than as a process that is dialectically bound up with it. Therefore, in this section, we propose that the Marxist approach to Korean financialization can be complemented with insights derived from Nitzan and Bichler's Capital as Power approach: a heterodox but Marxian-inspired approach that has produced some important methodological innova-

tions that we see as valuable for understanding the effects of financial changes on the class relations that shape the Korean economy. In particular, their approach allows us to see, more clearly, the role that is played by the ‘capitalization’ of class power, as we discuss below.

It is first important to point out that Nitzan and Bichler position their argument against the notion that accumulation can be severed from circulation such that industrial capital is valorized as ‘productive’ and financial and commercial capital as ‘unproductive.’ They argue that, analytically, it is difficult to disaggregate these fractions of capital from one another as they both are “anchored in the conceptual identity of circulation and accumulation” (Nitzan and Bichler 2009: 260). “And with capital out of the productive loop, the definition of the different fractions loses its meaning” (ibid.). They also discuss the methodological challenge – a challenge that is also raised scholars associated with the literature on financialization – of how to decide which fraction diversified firms such as the *chaebol* belong to, as “the vendibility of capital enables even relatively small corporations to operate in many different areas” (ibid). This problem is compounded by the fact that national accounts measure the profits of firms rather than simply establishments, so the profit of manufacturing firms may reflect activities other than manufacturing.

In the place of separating finance from industrial capital (or real from financial capital), Nitzan and Bichler (2009) instead propose that capitalization –the corporation’s expected future profit and interest payments, adjusted for risk and discounted to their present value – provides one effective way to quantify capitalist power.

"the elements of corporate capitalization – namely the firm’s expected earnings and their associated risk perceptions – represent neither the productivity of the owned artefacts nor the abstract labour socially necessary to produce them, but the *power of a corporation’s owners*. In the capitalist order, it is power that makes the owned artefacts valuable to begin with. Moreover, the power to generate earnings and limit risk goes far beyond the narrow spheres of ‘production’ and ‘markets’ to include the *entire state structure of corporations and governments* (Italics from original, 8)."

Our reading of this claim is that capitalization provides a useful means, but by far not the only one, to provide a rough quantification of the value of dominant firms derived from their ability to produce profit through both the exploitation the labour in production as well as through the circulation of capital in other spheres –a capacity supported not only by how a firm utilizes its assets but also the wider social-political relations that support it. We believe that such an approach can contribute to analysis of financialization in as much as the aim of scholarship is not simply to describe financial activities themselves –

and their often baroque complexity – but is, rather, an attempt to quantify the valuation-qua-capitalization of class power at the macro-scale.

3.2 Increasing differential capitalization?

From the perspective of capital-as-power, the nature of financial restructuring in South Korea has been the establishment of what might be called an expanded regime of differential capitalization. While the increasing capitalization of the Korean economy reflects the growing power of capital over societal process of production and reproduction on a global scale, this is not simply a case of the global dictating what the local does; rather, capitalization is a recursive process. Therefore, the ‘financialization’ of the Korean political economy does not necessarily mean the ascendancy of financial capital over industrial capital. Rather, this institutional rearrangement has provided Korea’s ruling ‘industrial’ capitalist class with an opportunity to become amalgamated into the transnationalized capitalist class forces that help to dominate and direct global accumulation.⁵ This is not to say that the restructuring of the Korean economy since 1997 has not led to new financial activities. The growth of speculative project finance vehicles and other instruments that have been used to fund urban development (Son 2014) and that have indirectly appropriated workers income into the sphere of financial circulation through a historic expansion of household debt (see Figure 4) are certainly evidence of an increase in new financial activities, if not potential harbingers of financial instability. Our point in this essay, however, is not to deny that the Korean economy has undergone important changes, but rather to argue that financial transformation in Korea does not represent either the marginalisation of non-financial (industrial) capital within the Korean economy or merely the predatory extraction of value from the Korean economy by foreign capital. The *chaebol* have been able to deftly navigate this new financial geography, expanding their export production as well as promoting and profiting from financial activities through both their construction and investment arms, just like other investors (Park BG 2011), and hence demonstrating the importance of an approach that avoids uncritically valorizing the distinction between financial and industrial capital.

⁵ Nitzan and Bichler regard the process of differential capitalization and the creation of a transnationalized bloc of dominant capital as the creation of a "global mega-machine." While certainly, the calculating logics of capitalist quantification reveal the power of this bloc, we want to stress that, as powerful as this machine metaphor is, capitalization is not mechanistic process, but rather a highly politicized one.

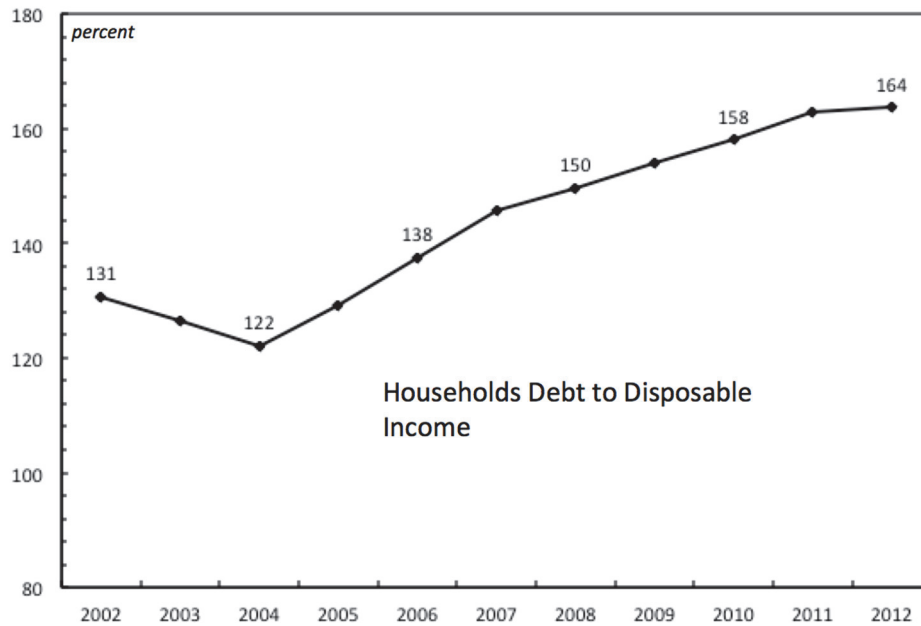


Figure 4: Loans to Households

Source: Bank of Korea

Especially when analyzing economic transformation in the Korean context, the development of the *chaebol's* differential power over social processes should not be neglected.

Seventy years ago most the founding fathers of the Korean *chaebol* were the owners of small corner shops or peddlers. Now many of their heirs are rich enough to be included in global billionaire rankings: 24 primary owners of Korean business groups were included in the 2013 *Forbes* list of the world's top billionaires. How was this possible? The free market-oriented research organisations sponsored by the *chaebol* argue that their success was due to the *chaebol's* Schumpeterian 'innovative entrepreneurship' (Centre for Global Strategies, 2013; Kang, 1997). This claim is unconvincing, to put it politely. In our view, the Korean *chaebol* have been innovative more in their relationship with politicians and bureaucrats than in productive technology. The establishment of a strong corporate-government distributional coalition, to borrow Olson's terminology (1965; 1982), has been key to the massive concentration and centralisation of Korean dominant capital for the past half-century. More specifically the emergence and development of the *chaebol* was assisted not by growth and productivity as such, but by their differential power over the social process as a whole, a process that involved violence, war, massive mobilisation, various oppressive apparatuses and systematic networking between politicians, bureaucrats and key businessmen. Without business barriers to entry set up by

the state for the benefit of the *chaebol*, both domestically and internationally, it would not have been possible for *chaebol* families to catch up rapidly with their global rivals.

In this regard, and following the Capital as Power approach, we argue that the Korean *chaebol* system was built upon forms of strategic sabotage, a concept that Nitzan and Bichler's use to describe *capitalist* forms of exclusion. For instance the nature of private ownership entitles capitalists to preclude wage labourers from participating in production and thereby from the reproduction of their lives. 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, the scope of capitalist forms of sabotage have expanded beyond the workplace and have 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 societal processes.

In this sense strategic sabotage has been central not only to Korea's capitalist development during the authoritarian regime, but also to its recent neoliberal restructuring. Under the authoritarian regime, Korea's dominant capital relied heavily on the exclusive institutional support of the state. Korea's core business groups would not be what they are today without, above all, the suppressive labour policies of the authoritarian government, characterised by low wages, long working hours and protectionist measures providing them with an incubator that shielded them from much more efficient global competitors. It cannot be overemphasised that various *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 centralisation of the *chaebol*. So-called cronyism, which refers to these selective forms of state support, both overt and covert, for capital (particularly for the leading capitalist groups), is typical of strategic sabotage. Korea's recent transition toward a 'free-market' economy does not mean a departure from this tradition of sabotage. While the state's direct intervention in the business world has been weakened, the power of exclusion exercised by Korea's dominant capital against other social groups has become stronger than ever. As described above, the *chaebol's* strategic sabotage has resulted in the rapid increase in irregular-work and youth-unemployment rates, the widening gap between 'big' and 'small' businesses and the intensification of income inequality.

Nitzan and Bichler suggest that this capitalist power over society can be quantitatively captured by an examination of the two key conditions for accumulation— a steady or rising capital share of income and a non-negative rate of differential accumulation by the dominant capital group. The latter, which is measured by the difference between the

growth rate of its capitalisation and that of an average capital in the business universe, can also be expressed as the differential profit of dominant capital, which is measured by dividing its net profit by that of the average, since capitalisation represents the discounted present value of risk-adjusted expected future earnings.

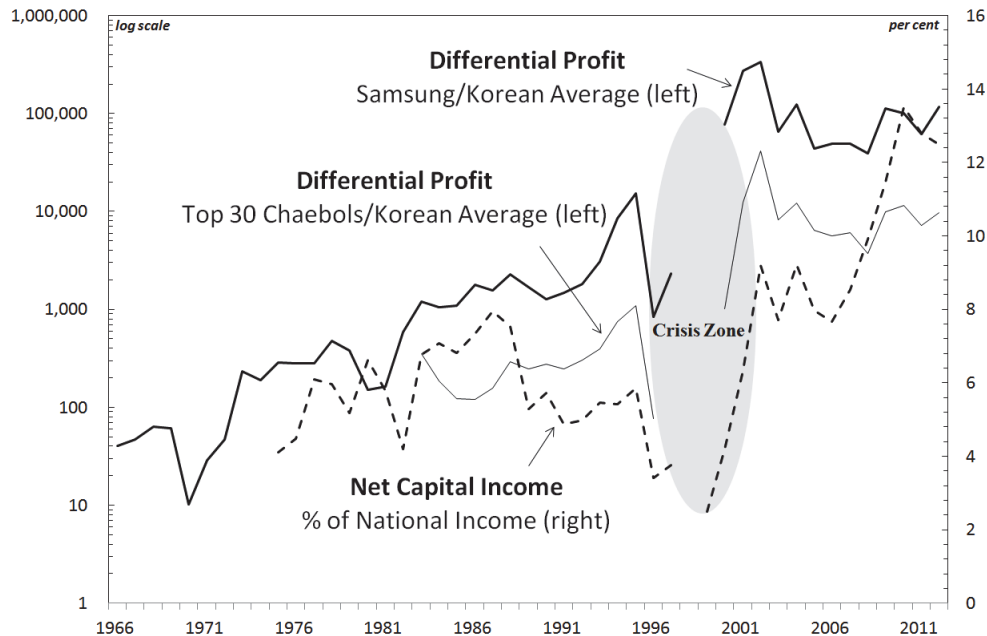


Figure 5 The Historical Trajectory of Korean Capitalism

Note: Periods during which either the *chaebol* groups' or overall corporate profits were negative are omitted.

Sources: Own elaboration based on Fair Trade Commission for the average profits of the top 30 *chaebol*; National Tax Service for the corporate average; Samsung 1998 and Samsung Online for Samsung's net profits

(http://www.samsung.com/us/aboutsamsung/samsung_group/our_performance)

In this analytical framework, Figure 5 symbolically represents the historical trajectory of the evolution of capitalist power in Korean society. The chart consists of three different series: the capital-income share, the differential profit of Korea's top 30 *chaebol* and the differential profit of the Samsung Group. The index of Samsung's differential profit is independently shown in order to supplement the relatively short time series of that of the top 30 *chaebol*. Due to the lack of available data, it is not possible to show the differential profit of all the major *chaebol* before 1983. Nevertheless, its pace can be estimated from the trend growth rate of Samsung's differential profit. Despite the difference in scale, as we can see from the chart, the top 30 *chaebol* seem to have followed the same pattern as Samsung. In the mid-1960s the ratio of profit between Samsung and the Korean average was about 40 to one. By the beginning of 2010s this ratio has risen to about

100,000 to one—approximately a 2,500-fold hike! In the case of the top 30 *chaebol*, their average profit was roughly 120 times larger than that of the average Korean firm in 1985: the former was 11 billion KRW; the latter was 89 million KRW. By 2012, this ratio had increased to about 9,600 to one—an 80-fold increase. Samsung’s differential profit grew by a factor of 106 over the same period. From the perspective of capital as power, the power of the owners of the Samsung Group, measured relative to that of other capitalists in the Korean business universe, grew at a rate of 18.6 per cent per annum during 1966-2012. Korean dominant capital as a whole seems to have followed a similar path, although its pace was slower than Samsung’s.

Korean dominant capital’s enormous differential accumulation was coupled with the growing share of capital in general in national income, despite the severe crisis in the 1990s. The latter rose from 4.1 per cent in 1975 to 12.5 per cent in 2012. From the perspective of capital as power, this positive association between the two indicators of accumulation can be interpreted as the parallel development of capitalist power 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. Indeed, the historical path of capital accumulation shown in Figure 5 coincided with a ‘great transformation’ in social relations through which the dominant capitalist class gradually ‘ascended the throne’.

At that crossroads, the ruling class seems to have reached a consensus to transform the regime of power. The new regime is characterised mainly by its more *flexible* and increasingly *transnational* 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. Yet this 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 had already reached the point that the ruling class as a whole could adjust to the new global and domestic socio-political circumstances. While Korea’s ruling capitalists, transcending their parochial boundaries through the spatial integration of ownership and accumulation, have become integrated into the transnational structure of global capital, their power over the societal process in Korea has become stronger than ever before. Figure 5 succinctly illustrates the characteristic features of this change.

Until the early 1990s, foreign ownership of the Korean stock market was negligible: in 1991, the market capitalisation of foreign-owned shares was only 2.4 trillion KRW (or 3.3 per cent of the market). When the Kim Young-Sam government declared its globalisation policy orientation in 1994, the situation changed suddenly.⁶ On the eve of the

⁶ In 1994 the Kim Young-Sam government announced its ‘Globalisation Strategy’. It was initially called the Sydney Plan, because it was publicised 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 compre-

1997 crisis, the value of foreign-owned corporate stocks had risen to 14.6 per cent 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 per cent; nowadays it is around 35 per cent of the market total. Because foreign investment is concentrated in major firms, Korea's dominant capital can hardly be called 'Korean' any longer -- despite the fact that the ruling families of *chaebol* firms have successfully maintained managerial control over their groups. Rather, we take this a sign of an ongoing *integration* of foreign and domestic capitals. For example, as of early 2013 the foreign ownership of Samsung Electronics accounted for more than 50 per cent of the total. That of the seven city banks amounted to 60 per cent, and the figure for the top 50 companies listed on the Korean stock market was 42 per cent.

The liberalisation of Korean capitalism has made capitalist power more *vendible*, thereby expanding its financial markets enormously. The essence of this change, we argue, is the institutionalization of increased structural power of the *chaebol* over Korean society as measured the huge differential accumulation of Korea's dominant capital rather than simply a drain of national wealth or the institutionalization of a distinct *rentier* economy powered by speculative finance capital. As shown in Figure 6, the total market capitalisation of the Korean stock market (excluding KOSDAQ) in 1980 was 2,526 billion KRW. The figure had grown 470-fold to 1,186 trillion KRW by 2013. Over the same period, the average market capitalisation of all the listed companies rose from 7.2 billion KRW to 1.5 trillion KRW—a 212-fold increase. The expansion of the Korean stock market during this period coincided with the enormous increase in the differential capitalisation of Korea's dominant capital. According to the chart, dominant capital's differential capitalisation (which is calculated by dividing the capitalisation of the 11 listed companies belonging to the top five *chaebol* groups by the capitalisation of the average listed company) rose from 2.7 in 1980 to 25 in 2013. From the perspective of capital as power this increase indicates that the increasing power of dominant capital over Korean society during 1980-2013, measured relative to the power of other capitalists, grew by a factor of more than nine.

hensive institutional transformation. In order to create a clear road map for reform, the government set up the Committee for Globalisation, which consisted of civilian experts and bureaucrats. The globalisation strategy of the Kim Young-Sam government consisted of 10 sub-goals that included not only economic liberalisation and deregulation, but also diverse issues such as environmental sustainability, the renewal of the educational system, investment in information infrastructure, adherence to the rule of law, and the improvement of social welfare. Among these 10 sub-goals, top priority was given to the globalisation of the Korean economy according to the neoclassical template, which necessitated a wholesale political economic restructuring.

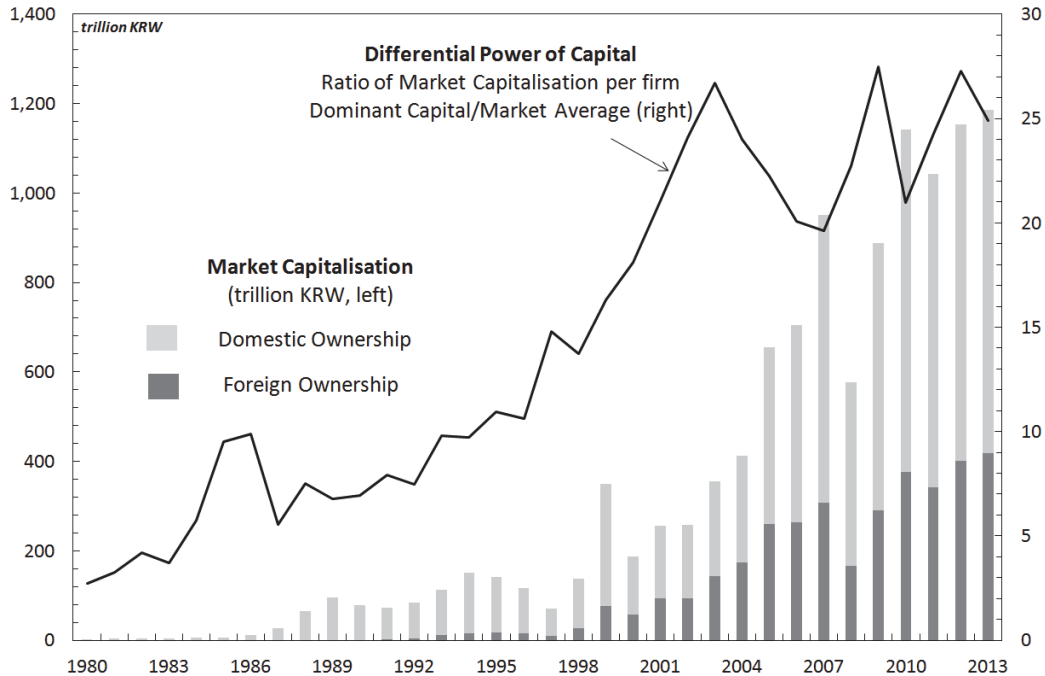


Figure 6 The Nature of Korea's Neoliberal Globalisation

Note: Dominant capital includes 11 major companies belonging to the top five *chaebol* groups: Samsung Electronics, Samsung C&T Corporation, Samsung SDI, Hyundai Motor Company, Hyundai Mobis, Kia Motors, Posco, LG Electronics, LG, SK and SK Innovation.

Sources: Own elaboration based on data from KIS-VALUE for the market capitalisation of dominant capital; the Korea Exchange and the Financial Supervisory Service for the rest of the data.

Conclusion

We'd like to conclude this essay by focusing on what we believe the political stakes of the analysis put forward above. If anything, what we've tried to show in this article is not only how financialization in South Korea is a contested concept –one that has a number of different actors, activities, and dynamics compared to much of the literature on financialization in the North Atlantic –but, more importantly, how there are important political implications to how one understands financialization. Reviewing the heated debates between the dominant liberal, post-Keynesian, institutionalist and Marxist perspectives on financialization in South Korea, we've attempted to highlight what we see as both productive and unproductive contours of the debate. In particular, we've argued that any approach that seeks to seriously address enduring structures of power and inequality in South Korea should not underestimate the power of the *chaebol*. While noting that certainly the Korean economy has been transformed since the 1997 financial crisis, we eschew any approach to this transformation that separates financial from industrial capital, and thus, in the Korean context, obscures the growing differential power of the *chaebol*

over the economy compared to other social groups. To this end, we have sought to demonstrate the utility of an approach that seeks inspiration from Marxist perspectives, and complements them with an analysis of differential capitalization, a concept that we see as providing a useful tool for measuring the relative power of dominant capitalist groups such as the *chaebol*. To this end, we have shown how the power of the chaebol has only grown in the era of ‘financialization’ since the 1997 financial crisis, despite claims otherwise that either Korean national wealth or the productive power of the chaebol has been drained by speculative financial capital. In contrast, the chaebol have emboldened their social power and simply merged more fully into the structure of global capital. While these insights may seem brazen to some, especially those invested in the economic nationalist defense of dominant capitalist groups in Korea, we can only hope that such an approach will be of assistance to social struggles seeking to bracket, rather than enable, the power of dominant capitalist groups over subaltern social forces.

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