

Capitalist Development in South Korea and Taiwan

Thu, 30/01/1997 - 11:59

The 'Tiger Economies' of Asia are presented as proof of capitalism's ability to develop the Third World. After the collapse of the Soviet Union, their high growth rates have been called the 'second shock for Marxism'. Michael Pröbsting examines the unique circumstances which allowed rapid growth in South Korea and Taiwan, and explains the limits of this model of development.

The economic development of Taiwan and South Korea since the end of the Second World War can only be understood as the result of a completely unique combination of factors. These include their historic relationship to Japanese imperialism, their internal social structure and their subsequent roles during the Cold War. Although individually comparable features are to be found elsewhere in the world, it was their particular combination and sequencing which underpinned the high growth rates of the last four decades.

However, if it was the Cold War which created the conditions for sustained growth then the collapse of the Soviet Union raises a major question about the future prospects of the Tigers.¹ Has their growth been enough to enable them to survive in the increasingly competitive world market? The signs are that the belief that the answer to this is yes will prove as illusory as the idea that the rest of the Third World could simply emulate them.

Two factors were crucial for the rapid industrialisation of South Korea and Taiwan: the legacy of Japanese colonialism and the land reform at the end of the 1940s and the beginning of the 1950s.

Early this century, South Korea and Taiwan were both colonies of Japan. Just as the search for profit has forced capital to increase the size of the proletariat, to educate and train it, so too imperialism, in some circumstances is obliged to unevenly develop the economies of its colonies and semi-colonies.

The extremely brutal subordination of these two countries by Japanese colonialism had a decisive impact on their social and economic structures. In keeping with the policy of 'agricultural Taiwan, industrial Japan' they were shaped entirely according to Japan's needs. Initially, this meant concentrating on restructuring the two colonies into efficient sources of agricultural produce. Thus, 95% of Taiwan's sugar production and 52% of Korea's rice went to Japan.² Economic integration reached such a high intensity that between 1911 and 1940, 85% of Taiwan's exports went to Japan and 74% of imports came from there. ³

This policy forced many peasants to move into production for the market. The consequences for the peasants were often dire. Many slid into dependence on leaseholdings and many others had to look for work in the towns. The consumption of rice between 1912 and 1936 was halved. The methods were certainly brutal but succeeded in integrating agriculture into the capitalist market.

Rule by the Japanese resulted in a massive weakening of the indigenous rural aristocracy, because the

Japanese appropriated a large part of the land to themselves. In Korea, for example, in 1942, they possessed 80% of the forests and 25% of cultivated land.⁴ Also, to fulfil the aim of increasing agricultural productivity extensive investment in the rural infrastructure was necessary. This explains how, at the beginning of the 1950s, 33% of all households in Taiwan already had electricity.⁵

The concentrated war effort in the 1930s led to a second phase, the building of industry in Korea and Taiwan, primarily in food processing, oil refining, machinery and shipbuilding. By the outbreak of war, industry was already providing 18% of Taiwan's GDP and 43% of Korea's. Here, Japanese capital was even more dominant than in agriculture. In 1938, domestically owned capital accounted for a mere 11% of total industrial capital, and by 1943 this had sunk to just 3%. A few Japanese plants, 1.2% of all factories, produced 60% of all industrial output.⁶

The result of all this was that, after 1945, South Korea and Taiwan found themselves with a productive agricultural system and a relatively developed industry which belonged to no one after the flight of the Japanese and so could be easily taken over by the state bureaucracy. In addition, industrialisation created a reasonably well trained labour force. Taiwan, for example, already had a relatively high literacy rate of 60% in the 1950s.⁷

The second precondition for the rapid industrialisation of South Korea and Taiwan was the land reform which took place in both states at the end of the 1940s and the beginning of the 1950s. In the semi colonies land reforms which give the greater part of the land to at least a section of the peasantry are rare.

Normally, the traditional landlords form an alliance with the rising bourgeoisie and imperialism to retain the ownership of land in a few hands. This led, and leads, to the impoverishment of the peasantry, inadequate usage of cultivable land and, consequently, low agricultural productivity. In turn, this results in the minimal development of the domestic market and a consequent dependence on trade with the imperialist countries.

In South Korea and Taiwan after the Second World War a number of exceptional circumstances prevailed and land reform followed a different pattern. An important part of the landlord class simply disappeared because of the collapse of Japanese colonial rule. At the same time, the revolutionary wave of workers' and peasants' struggles in Korea and the civil war in Taiwan created massive pressure for land reform. This pressure was increased by US imperialism which saw the solution of the explosive agrarian question as a means of combating the 'communist threat'.

The agrarian reform carried out between 1949 and 1953 had far reaching consequences. It created a broad peasant class which became a stable political base for the bourgeois bonapartist regime. In Taiwan, the proportion of landowners in the rural population grew from 38% (1952) to 67% (1965).⁸

It had a similar significance in South Korea. The leasing system was dissolved by law in 1949. The big landowners, however, were not expropriated; rather, they were given bonds with which to obtain shares in industrial undertakings. Some 40% of the land was redistributed in this way. By 1974, 70% of all households owned their land.⁹

The USA, while backing the military regimes in both countries, promoted capitalist agriculture in various ways. They poured huge funds into agriculture. According to Hamilton, 59% of net agrarian capital accumulation in Taiwan was financed by US money.¹⁰ In addition, from the 1950s the USA forced the 'four tigers' to diversify away from agriculture towards manufacturing exports while simultaneously importing American agricultural produce through the so-called PL 480 programme. The systematic import of US rice undermined South Korean production and the self-sufficiency rate in rice production went down from 93% (1962) to 69% (1973).¹¹ South Korea became the third biggest importer of US produce.¹²

However, bourgeois land reform had decisive consequences for the development of capitalism. Taiwan experienced a massive increase in agricultural labour productivity which grew at an annual rate of 3.7% between 1955 and 1964.¹³ Agricultural production doubled in Taiwan between 1951 and 1963. The resulting capital accumulation in the agrarian sector led to a high savings rate which was then channelled into the industrial sector.

Land reform also had another very important effect. In many semi-colonial countries, in which no substantial land reform has taken place, traditional social relations tie down a great deal of labour power. By contrast, in South Korea and Taiwan, the changes in property relations, together with increased productivity and the re-orientation away from rice cultivation, created a reserve army of labour which could be exploited on low wages in industry and the service sector. In this way a further essential precondition for the dynamic development of East Asian capital was created: a supply of human capital, labour power as a commodity.

The pro-capitalist land reform proved to be advantageous for the bourgeoisie because it ameliorated the explosive conflicts in the countryside, created a broad petit bourgeois and conservative peasant class, freed up an industrial reserve army and stimulated investment. All of these developments were beneficial for capitalist development.

Exploitation of the working class

Although the capitalist boom in Taiwan and South Korea resulted from the unique combination of several factors for Marxists one of them is pre-eminent: the exploitation of the working class. The decades long exploitation of a continually growing proletariat must be recognised as the motor of the capitalist economic miracle. Even bourgeois economists accept this. In a study for the World Bank, the neo-liberal economist, Ranis, wrote:

“Korea, just like Taiwan, could count on cheap unskilled but hardworking and educated workforces, an important component of any competitive, export-oriented development dynamic.”¹⁴

Another World bank economist pointed, in diplomatic terms, to the connection between the bonapartist dictatorship and the exploitation of the working class:

“The governments of these countries generally take a less accommodating stand against the demands of organised workers for a minimum wage than governments in other developing countries.”¹⁵

The foundations of the decades of exploitation were laid in the bloody counter-revolutions at the end of the 1940s through which the ruling classes of South Korea and Taiwan consolidated their rule. While in South Korea dual power existed (soviet-type bodies, militant general strikes) Taiwan was marked by the confusion of the Chinese civil war and the hostility of many Taiwanese to the invading army of Chiang Kai-shek’s Guomindang (GMD).

With US backing, the South Korean bourgeoisie launched a military offensive against the radicalised trade union movement and inflicted a historic defeat on the working class. From then until the middle of the 1980s it was impossible for the Korean working class to create trade unions independent of the state, to say nothing of strike activity in defence of basic rights. The founder and boss of the Samsung “chaebol”, gave a typically forthright capitalist view when he said:

“I would rather lie under the earth than see a trade union tolerated in Samsung.”¹⁶

Happily, this wish was soon granted him.

In 1948, the establishment of the GMD regime in Taiwan was accompanied by a bloody massacre in which 30,000 people died. From the beginning, every independent movement of the working class was crushed before it could grow. An independent trade union movement did not develop until the end of the 1980s.

Not much imagination is needed to picture what all this meant in terms of working conditions, wages, working hours and so on. For example, in the early 1980s, the South Korean industrial workers had a 54 hour week, one of the longest in the world.¹⁷ They also worked in unbelievably bad conditions. In 1990, 2,336 people died in accidents at work and 132,893 were seriously injured.¹⁸

These conditions help explain the enormous gulf between the rises in agricultural productivity and those in wages. Between 1957 and 1972, in Taiwan, productivity grew 25-fold, wages only by a factor of nine. The corresponding figures for South Korea were 8.5 for productivity and 2.5 for wages. ¹⁹ Elsewhere Ranis shows that industrial wages grew only slightly faster than agricultural wages.²⁰ In contrast industrial productivity grew much faster than in agriculture. The huge difference between productivity growth and the growth of wages points to the high rate of surplus value which was the real driving force of the process of capital accumulation.

The consequence of all these factors was that the concerted policy of land reform and industrialisation led directly to a dramatic growth of the working class. This increase in labour power allowed wages to be held down and, therefore, the uninterrupted rise in the production of surplus value and, with that, capital accumulation.

The basis of the economic miracles of these countries, then, was the decades long atomisation of the working classes. Of course the proletariat has been subjected to such conditions in other countries too, such as in Latin America, but not for an unbroken period stretching over four decades. While this specifically intensive exploitation of the working class is not enough to explain the whole of the economic boom it is the heart of the explanation.

Backing from Uncle Sam

The intensity and scale of the oppression of the workers cannot be understood without taking into account the support of US imperialism. The outbreak of the Cold War turned South Korea and Taiwan into front line bastions against the degenerate workers' states of China and North Korea. Because of this the USA supported them on a scale far greater than any other state, with the exception of Israel.

Between 1945 and 1978, the USA handed over economic aid worth US\$ 6,000 million to South Korea, that is the equivalent of all aid to the whole of Africa in the same period! In the 1950s, 80% of all South Korea's imports were financed with US help.²¹ In the same way, the NIC's were granted privileged access to the US domestic market, the biggest in the world. In the 1950s and early 1960s, US aid provided half the budgetary income of South Korea.

This had a direct influence on the process of capital accumulation. Between 1951 and 1965, the USA financed 34% of Taiwan's gross investment and 59% of net agricultural capital accumulation.²² By the mid 1960s, more than half of South Korea's capital formation came from American sources!²³ Added to that there was massive military financial help. Taiwan received US\$1.5 billion in this form between 1961 and 1965. One economist concluded that, through US aid, Taiwan's growth rate was doubled, its gross national product per capita was quadrupled and the time needed to reach the living standards of 1964 was reduced by some 30 years.²⁴

The USA did not only give financial help. It was also deeply involved in political and economic decision

making. The land reform was an important example of this. Other strategically important decisions influenced by the US included the transfer of production away from low value-added products to petrochemicals, specialist machinery and computers.²⁵

In Taiwan special commissions were established in which important decisions were jointly worked out. US involvement was far from altruistic. When necessary, Washington was prepared to blackmail the government. In 1960 it threatened to withdraw every form of support from Taiwan unless it accepted a 19 point programme which would liberalise markets, commerce, currency exchange, denationalisation and tax policy.²⁶

While the national bourgeoisie of these countries have their own specific interests, which from time to time conflict with those of their imperialist guardian, these were downplayed throughout the Cold War. In this way, the USA furthered its primary political-military interests at the same time as South Korea and Taiwan enjoyed accelerated economic growth. Because of the special importance of these countries to US imperialism it accepted, even encouraged, a greater strengthening and self-reliance on the part of these bourgeoisies.

So long as the Cold War determined the world situation, the NICs and the USA were bound together in a political-strategic alliance. Naturally, the USA did not overlook its own economic interests, as the enforced import of American agricultural produce showed, but this was not the primary motive, as can be seen from the relatively low level of imperialist foreign investment in South Korea and Taiwan.

This long term, strategic support by US imperialism distinguishes South Korea and Taiwan from practically all other semi-colonial countries. There are other strong links with semi-colonial regimes, for example in Latin America, but these never required the same scale of support over such a long time. Israel is an exception to this, but the sharp political-military conflict in the Middle East prevented the Zionist bourgeoisie from integrating itself into the regional markets on anything like the same scale as was possible for Taiwan and South Korea.

The state and monopoly capitalism

South Korea and Taiwan are relatively developed examples of the characteristic form of capitalism in the imperialist epoch, state monopoly capitalism. In general, the role of the state in these countries has been substantial in both the political and economic spheres.

The first and central task of the state was the transformation of agrarian and commercial capital into industrial and then finance capital. Before 1945, Korean and Taiwanese capital was limited to agriculture and commerce. After the defeat of Japan industry was largely taken over by the state in both Taiwan and Korea.

In the former, the state took primary responsibility for further development while in Korea it was gradually handed over to private hands after the division of the country in the Korean War. The state-organised land reforms obliged capital to orient investment more towards industry and, finally, the state also channelled US aid towards capital accumulation. On the whole, because of the lower concentration of capital in Taiwan, the state played a more important role there than in South Korea.

In both countries the state played a leading role in the process of the concentration of capital into massive monopolies, for example, the so-called chaebols in South Korea. In Taiwan state capital played a dominant role in industry, accounting for 55% of total industrial production in the early 1950s, but even then the GMD regime transferred four big concerns to private hands.

Private capital was similarly encouraged in South Korea. According to one study, most of today's 50 biggest industrial groups were established in the period 1945-61.²⁷ Such conglomerates dominate the national economy, especially in South Korea. The 10 biggest chaebols account for 65% of GNP and the 10 biggest exporters for 70% of all exports.²⁸

State capitalist property played a bigger role in Taiwan than in South Korea. After the expulsion of the Japanese, Taiwan put many of the abandoned enterprises under state control. As a result, 90% of business capital fell into state hands. In the years 1952-61, 51.3% of industrial production came from state owned firms.

However, in subsequent decades systematic privatisation has reversed the position and between 1982-87 private production was responsible for 83.8% of the total. In South Korea, by contrast, private capitalist ownership took the lead from the beginning (86-88%) and remained constant at this level throughout the 1960s and 1970s.²⁹

The importance of state capitalist economic policy can also be seen in investment. For example, between 1962 and 1973, an average of 30% of investment in South Korea was in the public sector. In Taiwan, the regime initiated a series of major projects in the 1970s which acted as a driving force throughout the economy.

Banking is perhaps the most important sector of state monopoly capitalism. After the military coup of 1961 in South Korea, the banks were nationalised. In 1970, 95% of all financial institutions were under state control. In Taiwan, the state owns practically all the banks.

As a result, the state was able to channel cheap credit to industry, thereby stimulating capital accumulation. Various economists believe that the building of the Korean export-oriented finished goods industry in the 1960s and the heavy and chemical industries in the 1970s was only possible on the basis of state credits. The dramatic growth in capital stock was also essentially financed from this credit. At least 50% of all internal credit in the 1970s came from the state and the figure was still running at 30% in the 1980s.³⁰

This represented a huge redistribution of wealth from the peasants and workers to the big capitalists. Because of the general lack of state welfare and health systems the workers and peasants were forced to insure privately. In addition, there were various mechanisms which made it difficult for the small saver to retrieve their money from the banks.

Because of the extremely low rates of interest on savings accounts and the high rates of inflation, savers actually lost money. In South Korea real interest rates were -5.3% (1962-66) -5.7% (1967-71), -6.2% (1972-76) and -3.5% (1977-79).³¹

Bourgeois economists, instructively, call this 'financial repression' and it was a central component of state credit policy because it enabled the banks to lend to employers at favourable interest rates. Here, too, interest rates were negative, employers paid back less than the credit they initially took out!

The state played a functional role for capitalism in several ways. One was through institutionalised co-ordination between the state bureaucracy and big capital. This has been positively emphasised even by the neo-liberals of the World Bank:

'Japan, Korea, Malaysia and Singapore established forums, the so-called Advisory Bodies, to put groups from the private sector in a position where they could influence formulation and implementation of government policy in their interests.'³²

The state provided further assistance by overseeing the creation of the institutions of indicative economic planning. In the South Korean Economic Planning Board (EPB) representatives of the state and big capital met on a monthly basis. All important national and international economic data were evaluated and strategies for capital were worked out.

The EPB played a central role in the development of strategies such as export-oriented industrialisation in the 1960s, the creation of heavy and chemical industries in the 1970s and the development of the high technology electronic and car industries at the end of that decade.

Similarly, South Korea pursued a tariff policy aimed at capital accumulation. Duties on imported capital goods were low while those for goods which competed with domestic production, such as textiles, chemicals, heavy industry were high. The special support given by imperialism meant that this had far fewer negative consequences than in other semi-colonies.

Research and Development (R&D) has been of central importance in both Taiwan and South Korea. They rank amongst the countries with the highest proportion of GNP devoted to R&D. This began with concerted efforts in the 1970s.

In 1975, South Korea's R&D effort represented 0.5% of GNP compared to Chile and Colombia's 0.1% each. By 1986, the proportion had reached 1.8% (Chile and Thailand 0.5%, Colombia 0.1%) and by the beginning of the 1990s both South Korea and Taiwan had reached 2.5%. The difference becomes particularly clear if spending in the production sector is considered. Here the proportion in South Korea in 1986 was 1.4% GNP, while in Thailand, Chile and Colombia, the proportion was precisely zero.³³

An important part of R&D spending comes from the state. In Taiwan, approximately 60% of industrial R&D was privately financed, the other 40% coming from the state.

Long term, high rate growth

The historic defeat of the working class, the sustained support from imperialism and state directed economic strategy made possible a dynamic accumulation of capital. In South Korea, in the 1960s, capital stock grew by 15.2% per year and in the 1970s it reached 24.7%. This rapid, and long term, capital accumulation was an essential factor in the rise of South Korea and Taiwan from backward semi-colonies to being among the world's most important exporters of goods and, recently, even of capital, especially in the case of South Korea.

The Japanese economist, Kawai, showed in a comparative study that the rate of accumulation of private domestic gross capital formation in South Korea between 1970 and 1980 averaged 27.2% per year and 12.8% between 1980 and 1990. In Taiwan, the averages were 18.9% (1970-80) and 12.1% (1980-90). This compares to Latin America where scarcely one of the seven countries studied had a rate above 5%.³⁴

To what extent was this rapid capital accumulation dependent on foreign imperialism? As we have already shown the massive and brutal exploitation of the working class allowed an extraordinary rate of surplus value extraction and consequently, accumulation. Nonetheless, imperialist support did play an important role on the economic level as well as the political. This was, in the first place, financial support which was used for capital formation.

Because of the specific political-military interests of imperialism in South Korea and Taiwan, this support for capital accumulation took an indirect form, one whose primary objective was the economic and political stability of the countries rather than direct pursuit of profit. As a result, foreign direct investment (FDI) was

of less importance than in other semi-colonies closely tied to imperialism and was low in comparison to other forms of finance. In South Korea FDI accounted for just 1.2% of domestic gross capital formation between 1962 and 1979 while foreign loans were responsible for 18.9%. In total, FDI represented only 10% of total foreign capital, foreign loans made up the rest. 35

In his comparative study, Kawai pointed out that foreign capital as a whole was of relatively little importance in the total capital formation. Thus, the proportion of FDI in total private investment in South Korea was only 1.4% (1970-80) and 0.4% (1980-90). In Taiwan, the significance was similarly slight, but showed an increase in recent years (2.7%, 1980-90).

Naturally, this does not mean that FDI was not important. The South Korean regime (from 1970) and the Taiwanese (from 1965) strove to attract foreign capital into the Export Processing Zones or, later, Export Industrial Estates. By the middle of the 1970s, foreign firms were playing a central role in the exports of both countries: 31.4% of all South Korea's exports (1974) and 30% of Taiwan's (1975) were produced by foreign firms. At the same time, the relative strength of South Korean capital can be seen from the fact that four years later this figure had shrunk back to 18.3%.³⁶

The importance of these figures is that they show that FDI did not play an unusually big role in the rapid capital accumulation in South Korea and Taiwan and that it did not limit the development of relatively strong and independent bourgeoisies in the two countries.

Bonapartist forms of rule

The link between the political oppression of the working class and the state capitalist economic policy is the bonapartist regime that is characteristic of practically all the semi-colonial countries of South East Asia. Whether formally a civilian or military regime bonapartism implies a high degree of executive or presidential power at the expense of the elected parliaments, where such parliaments exist.

The fact that both South Korea and Taiwan were front-line states in the Cold War ensured that the state bureaucracies of these countries could give massive nourishment to their national capitalist class through extensive protectionist measures and yet still count on unconditional military backing and economic assistance from the USA.

As a result the semi-colonial bourgeoisie, whose own class basis was relatively weak, gained a greater degree of stability than others which had to base themselves either on a section of the petty bourgeoisie or even on sections of the working class, or else had to subordinate themselves completely to the imperialists and, consequently, lost all freedom to manoeuvre

There were also quite specific initial conditions which strengthened the high degree of state capitalism in Korean capitalism and, to a lesser extent also Taiwanese. Because of the intensity of the class conflict and the war, the state bureaucracy gained central importance for the survival of capitalism. These factors led to a close, almost symbiotic, relationship between the bureaucracy and the bourgeoisie. Many officers became managers and capitalists. These close bonds between capital and the bureaucracy, especially the army, have been maintained.

In Taiwan, the Guomindang ruled without interruption after 1945. In South Korea, there were, it is true, two changes of government as a result of coups, in 1960/61 and 1979/80. However, the end of the dictatorship and the transition to bourgeois democracy as a result of the mass movement of students and workers in 1987 itself points to the relative stability of capitalist rule, since the changeover was carried through without any serious splits within the ruling class.

Results and prospects

By the 1980s, successful capitalist industrialisation had allowed South Korea and Taiwan to make progress in advanced economic sectors and to get away from their status as exporters of cheap textiles. Both have become globally important producers and exporters in the electronic and computer sectors and, in the case of South Korea, even in shipbuilding and cars.

The future prospects for South Korea and Taiwan depend on whether they have, in the last period, accumulated enough reserves and strength within the world economy to be able to withstand the much greater instability of the 'new world disorder'. For Marxists, therefore, the question of whether they can continue to develop is tantamount to asking whether they have themselves become imperialist powers.

Such a transition is not impossible.³⁷ Whether a state can be characterised as imperialist is not simply a matter of economic statistics but a question of relationships with other existing capitalist states. Nor does the characterisation automatically imply overwhelming military or economic power. There are many 'minor imperialisms', such as Austria or Sweden, which cannot begin to match the USA.

However, in considering South Korea and Taiwan, even in comparison to these subordinate imperialisms, it must not be forgotten that Austria and Sweden did not have to carve out their position in a world already dominated by imperialism. They were, from the beginning, a part of the developing system of world wide exploitation from which their own economies benefited.

In assessing the contemporary character of South Korea and Taiwan, three aspects will be of particular importance: the creation of relatively autonomous monopolies; the fusion of banking and industrial capital into a nationally dominant finance capital; and the increasing importance of the export of capital, particularly with respect to the ability to dominate other countries or regions by such export.

In the 1970s and early 1980s a South Korean monopoly capital was created that today exercises absolute hegemony within the national economy and a decisive influence over the politics of the bourgeois regime. Whereas the production of the ten biggest chaebols accounted for only 15.1% of GNP in 1974, by 1983 their share was already 65.2%.

Both the neo-liberals and the 'new growth' theorists are agreed that capital accumulation in Taiwan is noticeably less. This economy is more strongly marked by small and medium enterprises. This can be seen in an analysis of the internationally active concerns from the two countries. Of the ten biggest multinational corporations, measured by foreign assets, whose origins lie in the Third World, four come from South Korea, whereas the biggest from Taiwan comes in at number 14.³⁸

Capital exports are more important for Marxists than simple GDP growth rates because such exports show the relative strength and independence of any given capital. Both South Korea and Taiwan have only recently become significant exporters of capital. Up to the mid-1980s commodity exports were clearly dominant, corresponding to the classic picture of the semi-colony. But since then capital export began to increase.

In 1992, South Korea became a net capital exporter. However, the relative weight of Korean capital exports is not great in comparison to the whole economy: between 1990 and 1994 Korean FDI reached a value of 2% of GNP. In Taiwan, the same proportion, at 7.8%, was higher. All the same, the proportion of foreign owned investment to GNP in Taiwan also exceeded the South Korean value (Taiwan: 5.6%, South Korea: 3.3%).

The importance of capital exports was, therefore, less than in the USA (1990-94: 9.1% FDI/GNP) but was

greater than in weak imperialist countries such as Austria (in 1990 1.05% but in 1993 only 0.77%). In 1993, the total value of South Korean FDI was over US\$1,000 million, that of Taiwan was US\$2,400 millions, Japan US\$13,700 millions and that of Austria US\$1,600 millions.³⁹

However, a more detailed inspection is necessary in the analysis of capital exports from South Korea and Taiwan. It is common in East and South East Asia for multinational concerns, above all from Japan and the USA, to establish production facilities and then to export capital from them into the region or even globally. Singapore is the best example of this. Its FDI has a value of 13.3% of GNP (1990-94), but as can be seen from the dominance of foreign capital (foreign FDI/GNP 91%), these exports mainly come from the imperialist plants.

It would be an exaggeration to explain the increase in South Korean and Taiwanese capital exports entirely by such imperialist investments. South Korean and Taiwanese firms did gain market share in the USA at the expense of Japan. Nevertheless, with the end of the Cold War, US imperialism was no longer willing to give preferential access to the two countries and withdrew the status of 'Generalised System of Preferences' in 1989.

The strength, especially of South Korean capital, is shown by the fact that recently, despite harsher international competition, it was able to make significant investments in the computer sector in the USA, to establish a car plant in Britain and to purchase the Polish car industry. These investments were not in relatively unimportant niches but in central sectors of the world economy. Not only that, despite a 9% revaluation of the Won and a 20% increase in wages, the chaebols in 1987 were able to increase production by 16% and net profits by 34%.⁴⁰

South Korea and Taiwan have also been able to make their presence felt as regional powers in South East Asia. At the end of the 1980s Taiwan replaced the USA as the second biggest foreign investor in the ASEAN countries and Japan as the biggest foreign investor in Malaysia. In Vietnam, Taiwanese capital also has first place. South Korean capital exports to ASEAN countries went mainly into processing industries (two thirds of accumulated FDI) in Indonesia, Malaysia, the Philippines, and Thailand. The German Asia expert Köllner went so far as to say that:

'The ASEAN states, together with China, have become an extended production line for South Korean firms? 41

Such developments, however, are counterbalanced by some serious problems and countervailing tendencies. Although South Korea's trade balance with the USA has long been positive, that with Japan was in the red for decades. Only in the years 1987-90 was the trend reversed. In the 1990s the deficit has grown bigger than ever, US\$4,800 million in 1990, \$9,700 million in 1991. Quite apart from the financial implications, this deficit highlights the technologically dependent position of South Korea.

A further problem related to the assessment of the importance of capital flows in and out of the Tiger economies is that much of the inflow is of credit and, consequently, a significant part of the outflows are not exports at all but interest payments to the imperialist creditors.

The importance of capital exports from the two countries has to be qualified on other counts too. Some firms are really just fronts for Japanese or American investors and of Korean and Taiwanese firms whose products, for the most part, are dependent on patents held by imperialist multinationals or are dependent on the importation of key technologies from the imperialist centres. Similarly, while world famous products may be made in Asia under license from US, Japanese or European corporations, the latter corporations retain control of marketing and distribution which allows them to siphon off the bulk of the profits.

Berhard and Ravenhill give the example that, although Taiwan was the leading producer of computer monitors in 1991, with 39% of the world market, the key component, responsible for 30-35% of the total value of the product, came from a Japanese firm.⁴² Similarly, they cite a study which showed that in 1987, 36% of the components of the Korean electronics industry came from Japan.

Apart from these considerations, a certain distinction has to be drawn between South Korea and Taiwan. In Taiwan, in the last 10 years, the proportion of foreign investments has greatly increased. One of the reasons for this is the big export outlets in South East Asia and the booming Chinese market. In this connection, Taiwanese capital is not in a good position to develop its own technologies and capital exports because of a lower degree of concentration. This means that dependence on foreign technology and capital exports is higher. For the same reason, South Korean multinationals are much stronger in the world market in comparison to Taiwan.

The question as to whether South Korea and Taiwan have managed to overcome their semi-colonial status revolves around their ability to overcome their dependent relationship within the international framework at the economic, political and military levels.

We think that Taiwan remains a very advanced semi-colony, but certainly not an imperialism. Decisive in this is the low degree of development of monopoly capital which results in a greater dependence on imperialist ?mother firms? for the export of capital. The higher mass of capital exports is certainly an important factor but it has to be seen in relation to the higher import of capital from the imperialist states.

Development in South Korea is more advanced than in Taiwan. As we have shown, the high degree of monopolisation has made possible a relatively important position in the world market. However, capital export has only become of central importance in the recent past and in total is still not very great. It remains to be seen whether this will change in the coming years. As regards the internal situation, the chaebols are going to have to deal with three central problems.

First, they face the urgent necessity of cutting their debts. As in Japan, the close merger between banks and industrial concerns has led to a mountain of debt. In the next few years, the government is going to have to deal with this. This will lead to firms collapsing, increased taxes for the working class and so on. This problem can be resolved but as the longlasting problems of Japan have shown, the obstacles are very big.

In particular, they will be made more difficult by increasing international competition and a tendency towards protectionism among the established powers. This will be made worse by the changed international political situation in which the grounds for the Tigers? earlier advantages have disappeared, only to be replaced by moves towards regional ?bloc-building? by the imperialists. The same states are now unlikely to tolerate the emergence of new imperialist rivals. At the same time, a second rank of would-be tigers, Malaysia, Thailand and the Philippines, are undermining the competitiveness of production in South Korea and Taiwan.

Secondly, South Korea is on the threshold of joining the OECD, the rich club of around 30 top industrial nations. But the price of membership is opening up the closed capital markets in South Korea to foreign capital. This will lead to vulnerable monopolies being taken over, leading to many familiar names in Korean electronics and cars being effectively owned by the more efficient imperialist rivals in Europe, the US or Japan.

Finally, and above all, there looms the biggest challenge of all, the growth of the working class within South Korea itself. The huge economic progress of the last four decades has brought into being a new and

militant working class, already tried and tested in the battles that have raged on the streets, in the factories and in the shipyards.

The coming international competition to the power of the chaebols will lead the Korean bosses to take on this class that has begun so recently to build up its trade union strength. The outcome of that battle will not only decide the character of South Korea but may well determine the future of Asia's 'economic miracle'.

footnotes

*The original article, *Der Kapitalistische Aufholprozesses in Sudkorea und Taiwan: Bilanz und Analyse*, appeared in *Revolutionärer Marxismus*. It has been shortened for this edited version. The complete English translation, can be obtained from the LRCI for £1.00.

1 The 'four tigers' of S. E Asia are South Korea, Taiwan, Hong Kong and Singapore.

2 Ranis, G. 'Another Look at the East Asian Miracle', *World Bank Economic Review*, 3/1995 p511

3 Hamilton, Clive, 'Capitalist Industrialisation?', in *Journal of Contemporary Asia*, 1/1983 p39

4 *ibid.* p.38

5 Ranis *op cit* p511

6 Hamilton *op cit* p40

7 see also Nolan p48

8 Hamilton *op cit* p50

9 Hung, Rudy 'The Great U-Turn in Taiwan?', *Journal of Contemporary Asia*, 2/1996

10 Hamilton *op cit.*p51

11 *ibid.*

12 Lutte Ouvrier, in *International Communist Forum* 16 London 1994 p13

13 Ranis *op cit* p513. Compared to 2.4% in South Korea

14 *ibid* p525

15 Page, John 'Das ostasiatische Wirtschaftswunder?', in *Finanzierung &Entwicklung* Maerz 1994 p3

16 Quoted in, Ogle, George, *South Korea: Dissent Within the Economic Miracle*, London 1990 p10

17 Deyo, Frederick, *Beneath the Miracle*, Berkeley 1993 p98

18 Douglass, Michael, in *Journal of Contemporary Asia* 1/1993 p155

19 Ranis, *op cit* p514

20 *ibid*

21. Lutte Ouvriere *op.cit* p5

22 Hamilton, *op.cit* p1

23 Amirahmadi, Hooshang, in *Journal of Contemporary Asia* 2/1989 p177

24 Hamilton *op.cit* p53

25 Xinyi, Xu, in *Internationales Asienforum*, 1-2/1996 p54

26 Hamilton *op.cit* p43

27 *ibid* p48

28 Amirahmadi *op.cit* p179

29 Ranis *op.cit* p511

30 See Vittas, D. and Cho, Y 'Die Rolle der Kreditpolitik in Japan und Korea?', in *Finanzierung&Entwicklumg*, *op cit.*

31 Kwon, Jene, 'The East Asia Challenge to Neoclassical Orthodoxy?', in *World Development* 4/1994

32 *ibid* p5

33 Pietrobelli, Carlo, *Development Policy Review*, 4/1994 pp115-148

34 Kawai, Hiroki, 'International Comparative Analysis of Economic Growth' in *The Developing Economies*, December 1994

35 Castley, R.J. 'The Role of Japanese Investment in South Korea's Manufacturing Sector' in

Development Policy Review, 1996, p69

36 Xinyi op.cit p58

37 Our international tendency concluded several years ago that South Africa, because of its unique circumstances both internally and internationally, had been able to establish itself as an imperialist power, albeit a minor one.

38 Far Eastern Economic Review, 31 October 1996

39 Schultz, S. Intereconomics November/December 1995 p296

40 Irwan, A. ?Business Patronage, Class Struggle and the Manufacturing Sectors? in Journal of Contemporary Asia, 4/1989 p409

41 Koellner, P. ?Suedkoreas Direktinvestition in der ASEAN?, in Suedostasien Aktuell, Maerz 1996 p171

42 Berhard, M. and Ravenhill, J. Beyond Product Cycles and Flying Geese, in World Development 1/1994

43 For example, Amsden, Alice, in a review of ?The East Asian Miracle? in World Development 4/1994.

44 Lutte Ouvriere op cit p7

Source URL: <https://fifthinternational.org/content/capitalist-development-south-korea-and-taiwan>