THE NEOLIBERAL STRATEGY OF SOUTH KOREAN CONGLOMERATES

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Abstract: Neoliberal strategy, which was adopted and implemented after 1987, lies behind the success of South Korean conglomerates (chaebols), and it was strengthened during the Asian financial crisis in 1997. Faced with new spatio-temporal conditions and the massive struggle of workers, the chaebols started a project to restore capitalist power. To this end, the chaebols actively supported the political powers who represented them and adopted American and Japanese strategies for globalization and flexibilization. After enduring the 1997 crisis, the chaebols shifted from growth- to profit-orientatedness due to external pressures, and neoliberal strategy intensified due to an emphasis on globalization and flexibilization. However, the chaebols’ neoliberal strategy should be defined as distinctly Korean. They still maintain corporate governance in which the ownership and management are combined, mobilize resources for the owners’ objectives, and conduct unrelated diversification. In addition, the chaebols have accumulated capital by transforming themselves into industrial, commercial, or financial capital since the 1950s.

Key words: chaebol; neoliberalism; crisis management; globalization; flexibilization; South Korea

Introduction

Many South Korean conglomerates, known locally as “chaebols,” have grown into global economic powers. A chaebol is a diversified and large-scale conglomerate form of capital governed dynastically by an owner and the owner’s family. The chaebols have grown quickly in Korea, dominating the market and contributing to the economy. Some chaebol affiliates grew into leading corporations in the
global market. Samsung Electronics is the world’s second-largest manufacturer of smartphones and memory chips. Another Korean conglomerate, the Hyundai Motor Group, competes with leading enterprises in the global market, with its affiliate Kia Motors. According to the 2020 Fortune Global 500, Samsung Electronics and Hyundai Motors ranked 19th and 84th, respectively, and eight other affiliates were also named on the list. After being structured in the 1970s, some chaebol affiliates have grown into leading corporations in the global market in 30 to 40 years.

How did the chaebols accomplish such remarkable achievements? I argue that a neoliberal strategy, which they adopted and implemented after 1987, lies behind the chaebols’ global success, and this strategy was strengthened during the Asian financial crisis in 1997. Traditionally, neoliberalism has been understood as a macro-societal concept, often equated with the retreat of the state and free-market ideology or a set of liberalization and deregulation policies. However, when viewed from the perspective of capital, neoliberalism can be regarded as a strategy to counteract labor and obtain greater profit to cope with the accumulation crisis.

In 1987, the chaebols began to pursue a neoliberal strategy, one that presents a unique pattern over time. The chaebols’ strategy was fundamentally identical to that of the US and the UK, as it was a response to the accumulation crisis, and a resurgence of capital against labor. But the way it was implemented was different, so can be defined as a neoliberal strategy with Korean specificities. I will analyze why and how the chaebols implemented and developed this neoliberal strategy. In addition, I will reveal the similarities and differences between their strategy and conventional neoliberalism, as well as internal contradictions in the Korean methodology.

In this article, I will question the conventional conceptualization of neoliberalism and argue that it can be considered a strategy of capital. This article can contribute to current research on the chaebols by explaining why and how the chaebols, which became the world’s leading capital, implemented this unique neoliberal strategy. Moreover, I will discuss contemporary global capitalism, including spatio-temporal conjuncture, historical heritage, and the variegation of capital accumulation strategy.

The Neoliberal Strategy of Capital

As the chaebols grew into global leaders, many began explaining this phenomenon. First, those who support the chaebols and the chaebols themselves attributed their growth to the owners’ risk-taking and innovation (LG 1997; Samsung 1998; Samsung Electronics 2010; SK 2013; Song and Lee 2014). But there are some problems with this conventional view. Rather than taking risks, the chaebols in
fact attempted to create an environment in which risk-taking was unnecessary by mobilizing resources and power. In addition, while their intention was to encourage innovation, the chaebols’ techniques tended to suppress innovation, and there were many cases where the chaebol owner became a risk.

Second, many scholars also attribute the growth of the chaebols to collusion between government and business, so-called “crony capitalism” (Kang 2004; Kwak 2012; W.-B. Lee 2015). This approach was even substantiated by Samsung’s political influence scandal that ensnared the former president Park Geun-Hye. However, collusion between the chaebols and the government dwindled significantly after democratization in 1987 and the Asian financial crisis in 1997. If crony capitalism theory was correct, the chaebols would have had to face significant difficulties in growth since 1987, but this did not happen. As a result, this relationship has played a minimal role except for in the succession of management rights.

Third, labor unions, progressive NGOs and some intellectuals argue that the growth of the chaebols was due to the exploitation of labor (Kwak 2012; W.-B. Lee 2015). While workers did suffer from low wages and long hours in poor conditions, labor exploitation did not happen only in Korea, so this argument cannot explain the chaebols’ capital accumulation entirely. Labor exploitation works with other factors, which at certain times were more important to the chaebols. If the labor exploitation argument was valid, chaebol growth would have slowed considerably since the 1980s, when wages rose rapidly and working conditions improved, but it continued to increase.

Beyond the existing theories, I argue that the chaebols have launched a systematic capital accumulation strategy since 1987. The chaebols’ growth and global success is fundamentally attributed to the accumulation of capital, which is a process or relationship that continually moves and circulates due to competition and the pressure for profit. Moreover, the capital accumulation strategy can be viewed as neoliberal.

Neoliberalism is usually considered a macro-societal concept that includes ideas, theories, and a set of policies (Munck 2005, 60; Mudge 2008; Braedly and Luxton 2010; Amable 2011, 5–6; Venugopal 2015; O’Neill and Weller 2016, 86–87; Fine and Saad-Filho 2016, 686; Kim 2019a, 180–183). In this context, neoliberalism means promoting individual freedom and competition, minimizing the role and territory of the state, and replacing the state’s power with a so-called free market. In many cases, neoliberalism involves abolishing various regulations and promoting liberalization and privatization policies.

However, neoliberalism should not be defined only as an idea, theory, or set of policies. Neoliberalism involves varied combinations of ideology, theory, policy, and practice, with connections but not necessarily coherence across and within these elements (Chang 2002; Mirowski and Plehwe 2009, 14–15; Peck 2010; Ji
Neoliberalism has never existed in a pure form implied by an idea or theory. Neoliberal ideas and theoretical systems often portray the ideal of neoliberalists projected and thus differ from reality (Peck 2010; Crouch 2011; Mirowski 2013). In addition, neoliberal policies were implemented inconsistently and opportunistically even in the US and the UK (Pierson 1994; Prasad 2006; Crouch 2011; Mirowski 2013; Fine and Saad-Filho 2016). Given its nature and origins, neoliberalism is fundamentally a political-economic project. As some have noted, neoliberalism aims to restore capitalist class power and accumulate capital by counteracting labor in response to the accumulation crisis in the 1970s (Gowan 1999; Panitch and Gindin 2004; Dumenil and Levy 2004; Harvey 2005; Macartney 2011; Overbeek and Apeldoorn 2012; Pradella and Marois 2015; Davidson 2018). The ideas and policies considered as the core of neoliberalism are in fact only manifested when a political-economic project is working. This is why ideas and theories were not supported until a certain time. In this context, when viewed from the perspective of capital, neoliberalism is a capital accumulation strategy to counterattack labor and obtain greater profit to cope with the accumulation crisis.

In the process of this strategy, capital should provide a large amount of resources for political parties and politicians to represent their interests (Edsall 1984; Clawson, Neustadtl, and Weller 1998; Boggs 2000; Smith 2000; Crouch 2004; Hacker and Pierson 2011). This allows them to receive direct or indirect support from state power or influence a market in a favorable direction. In addition to taking advantage of the structural forces from their investment capabilities in capitalist societies (Block 1977), capitalists can be liberated from state control or discipline by cultivating these political forces. In competing with political forces to gain autonomy from the state, capital can profit by applying its neoliberal strategy according to its own will and judgment.

When focused on corporate governance, spaces and forms of capital accumulation, and labor management, neoliberal strategy consists of the following elements. First, it is a departure from the existing way of management, which prioritized restraining shareholder value and emphasized retainment and reinvestment (Lazonick and O’Sullivan 2000; Jensen 2002; Soederberg 2004). The new strategy has provided executives with stock options and aimed to maximize shareholder value, which emphasizes short-term profits and dividends. Second, it is a globalization of production and finance (Helleiner 1994; Gowan 1999; Panitch and Konings 2008; Panitch and Gindin 2012). Capital has sought to secure new labor power, production processes, distribution networks, and markets through the expansion of production space. Through financial globalization, firms invested in more profitable overseas assets to eliminate existing excess capital, manage risks at a global level, and gain profits.
The third element of neoliberalism is financialization (Epstein 2005; Bryan and Rafferty 2006; Becker et al. 2010; Krippner 2011; Lapavitsas 2013). Financialization refers to the growing reliance of non-financial firms on financial activities to subsidize profits generated through more traditional activities (Krippner 2005). In other words, as cash flow becomes more important and the profitability of the financial sector increases, many companies will make profits like financial companies. The last element is labor flexibilization (Harvey 2005; O’Connor 2010; Kotz 2015; Jackson 2016; Fine and Saad-Filho 2016, 693–694; Davidson 2018, 65). Under the previous Bretton Woods system, capital gained high profits in a stable environment while compromising with labor and the state. In return, they could not implement labor flexibilization. However, after the 1970s crisis, capital tried to adjust the wages and employment patterns according to their own interests in procuring and managing the labor force.

Thus, the neoliberal strategy of capital consists of maximizing shareholder value, globalizing production and finance, implementing financialization, and enforcing labor flexibility. Neoliberalism can evolve according to internal contradictions of the strategy and spatio-temporal conditions. Based on these points, the next chapter will examine the rise of chaebol’s neoliberal strategy.

The Rise of Neoliberal Strategy

The chaebols in the 1960s and 1970s had to circulate capital in the form of industrial capital in accordance with the discipline of a military regime that wielded considerable state autonomy. However, they did not have the capacity to accumulate capital. The chaebols of the 1950s earned money largely in two ways: commerce and receiving and processing US aid materials such as wheat, raw sugar, and cotton. Thus, the chaebols did not have the technology and capital goods needed for production and could not finance investments due to a lack of domestic savings. It was also difficult to find markets to sell goods due to poverty in rural areas and low wages. As a result, they organized the circuit of capital with a dependence on the military regime and foreign capital. This was possible because, unlike Hong Kong (China’s SAR) and Singapore, the military regime chose chaebols rather than multinational corporations as partners for economic development (Castells 1992). Through the regime, chaebols procured money capital, labor forces, and means of production, controlled labor processes, and dominated the domestic market. They also formed an international division of labor with Japanese capital. Thus, chaebols received equipment, technology, and production know-how, exported through the Japanese, and developed vertical and horizontal diversification (Castley 1997, 82–83; Chibber 1999, 330; Ji 2011b, 37; Kim 2019b, 24–25).
Chaebols exhibited strong growth-orientedness with the objective to increase the size of the enterprise in order to consistently receive resources such as money capital—which was essential for the circulation of capital—from the military powers. Therefore, they increased their size by accumulating affiliates regardless of profits and invested heavily in industries supported by national resources. The rapid growth of chaebols’ funding, investment, and debt ratio since the 1960s demonstrates this trend (Korea Development Bank 1995; Kim 2017, 243–244).

By the 1980s, chaebols needed to gradually change their strategy. Since the 1980s, the regime began to weaken due to the emergence of economic bureaucrats who studied neoclassical economics, the liberalization pressure of the US (Bello 1994; Evans 1995, 51–52), and the growth of chaebols. Due to democratization in 1987, the government could no longer target development, allocate most of its resources to chaebols, nor protect the domestic market as before. However, this arrangement in fact benefited chaebols. Due to increased capacity, chaebols no longer needed governmental support. In the 1980s, capital accumulation and concentration increased dramatically, especially since 1985 when chaebols secured vast funds. They raised their own capital based on their profits, scale, and foreign credit rating, dramatically increasing their accumulation capacity (K.-P. Kim 2018, 193). As a result, the government that emerged after democratization could no longer impose discipline on the chaebols.

In addition, chaebols faced a more competitive environment. The intensifying competition between capitals had increased profit pressure at the global level, and price competition intensified as Japanese capital entered Southeast Asia after the 1985 Plaza Accord. As the growing chaebols became competitors for Japanese and other foreign capital, it was impossible to continue to cooperate, and they needed to win the intensified price competition (Kim 2019b, 25).

Yet contradictions within existing accumulation strategies began to arise. Before democratization, chaebols managed labor forces similar to the Japanese Meiji army through a governmental alliance. However, when the alliance between the chaebols and the government deteriorated after democratization in 1987, chaebols faced unprecedented resistance from laborers. These workers could no longer tolerate military-style control, poor working environments, high intensity of labor, and low wages, so they organized protests led by heavy and chemical industry affiliates. The chaebols accepted their partial demands since they were enjoying an economic boom after the Plaza Accord and suffered from a lack of workers (K.-P. Kim 2018, 191). The government did not directly intervene in the conflict between capital and labor because of the imminent presidential election. The most meaningful gain from this confrontation was a wage increase for employees. They also achieved recognition for unions, easing of labor intensity and physical and psychological violence, and a stronger seniority system.
However, the end of the economic boom coincided with the 1988 Seoul Olympics in Korea. Chaebols developed a new accumulation strategy, which I refer to as a neoliberal strategy, to meet rising competition among capitals at both the global and regional levels and to deal a counterblow against labor. Unlike the experiences in the US and Western Europe in the 1970s, the rate of profits in Korea in the late 1980s did not sharply decline (Jeong 2004; Hong 2013). The chaebols’ sales and net profits recorded positive growth, but the chaebols reacted sensitively to their employees and the intensification of competition between the capitals.

The chaebols enlisted some elites to represent them in the ruling party, while actively promoting their opinions in the political arena, using their interest group, the Federation of Korean Industries (FKI). In some cases, they made their own political parties and attempted to win the election as a candidate. Due to the pressure from civil movements, the newly democratized government tried to control chaebols, induce investment in the production sector, prohibit real estate speculation, and impose market discipline on chaebols simultaneously. These measures against the chaebols’ interests compelled them to publicly confront the government in the media. In addition, the chaebols did not provide the government with political funds as readily as before (Cho 1996, 197–199, 202; K.-P. Kim 2018, 193). In the pre-democratization period, chaebols gained a profit from the regime if it paid political funds, and in turn the regime had the power to ruin the chaebols, but that was no longer the case. In the end, most of the government’s actions failed and the chaebols were free from democratic control to implement neoliberal strategies.

The chaebols’ neoliberal strategy consisted of the following factors. First, chaebols aimed to globalize the circuit of capital, which previously occurred at the national level (K.-P. Kim 2018, 194–197). Even though chaebols engaged with the global market in the circuit of capital—such as procurement of money capital or means of production, the introduction of technology, and exports—it was primarily based on relationships with the Korean government or foreign capital. Furthermore, the circuit was mostly built on domestic structured coherence. However, after 1987, chaebols tried to retrench expenses, weaken labor, and increase profits by procuring accumulation elements, producing, and distributing across broader regions. The chaebols sought an easier and less expensive way to procure money capital and invested in foreign assets and resources for faster value realization. According to the Export-Import Bank of Korea, foreign direct investment by Korean companies had increased sharply since 1987, and the trend has accelerated since 1993. They tried to reduce labor expenses, secure cutting-edge technology, and avoid trade conflicts through the establishment of an international production base, an alliance with international capital, or a merger and acquisition. Moreover, chaebols began to establish their own channels of distribution, sales, and services in the global market (Hobday 1995, 71; Kim 1997, 153; Samsung 1998, 323–326; Gray 2008, 488; Y. Lee 2015, 185–187).
Second, chaebols adopted a flexibilization of labor. They introduced a Japanese-style production method and began to automate production by purchasing new technology. At the same time, chaebols attempted to control wages as well as the form of labor and tasks for their own interests in regard to procurement and management of labor (Park 1997, 172; Burkett and Hart-Landsberg 2003; Gray 2008, 487–488; W.-B. Lee 2015, 185–187). These changes involved retracting the initiative of wage determination from employees and adding meritocracy to the existing seniority system. Regarding employment, chaebols put pressure on labor and adopted quantitative flexibilization such as dispatching, in-house subcontracting, outsourcing, and a layoff system for greater profits. They pursued functional flexibilization for tasks of labor. As a result, tasks were rearranged and the intensity of labor worsened through scientific management or tools (K.-P. Kim 2018, 202–204). Laborers, on the other hand, did not conform to chaebols’ flexibilization attempts. Labor unions coped with the attack by trying to block the introduction of flexibilization and by improving their economic conditions (Jeong 2013, 305). In the 1990s, capital and labor experienced continuous strife, which caused a labor strike in 1996, resulting in the postponement of flexibilization and layoffs. However, after the economic crisis the following year, capital began full-scale flexibilization.

As noted earlier, neoliberalism can be seen as a political-economic project to restore capitalist class power. More specifically, neoliberal strategy includes embedding shareholder value maximization to emphasize dividends and short-term revenue gains, which globalizes production and finance, implements financialization, and enforces the flexibilization of labor. From this point of view, the chaebols’ strategy after 1987 is a late version of neoliberal strategy. Overall, with this new strategy, capital aimed to beat the competition at the global and regional levels and deal a counter strike against laborers who collectively resisted capital in 1987.

However, chaebols’ strategy differs from conventional neoliberal strategy in a few notable aspects. First, chaebols did not pursue shareholder value maximization, which places emphasis on cash flow, short-term revenue, and dividends. Chaebols maintained a system that mobilizes the resources of the group to support the owners, but shareholder value maximization would have gone against the owners’ interests. Thus, chaebols prioritized growth over dividends and short-term revenue. The administration, with the president elected in 1988, tried to institute policies related to transparency in the corporate governance and control over economic concentration of chaebols while advancing liberalization. Because at the time, people considered the chaebols and military dictatorship as a package and voiced the view that both economic and political democratization were needed (Kim 2019b, 27). However, the chaebols strongly opposed the government’s policies and eventually neutralized the policies (FKI 2011, 260–275). They could
finance capital more easily due to steady growth from the past 20 years and the economic boom after 1985 and became more growth-oriented to survive intensified competition. In effect, they increased financing and investment at the local level as well as globally and expanded the scale of their affiliates despite a high debt ratio (Korea Development Bank 1995, 2002).

Second, the chaebols failed to realize globalization of finance or financialization. The fact that the Korean financial market was not as developed as the US or the UK, and that adequate financial techniques and engineering were absent, hindered the chaebols from financialization. However, the chaebols did not solely pursue industrial capital. Instead, they have earned profits from industrial, commercial, and financial capital from the 1950s through to the present day. For example, Samsung (1998) has earned a profit and raised funds through financial affiliates since 1957. For most of this time, the top three affiliates with the highest operating profit have been in electronics, trading, and finance. According to the Korea Fair Trade Commission, the three major sectors that generate sales and profits for most of the other chaebols were not comprised solely of industrial capital affiliates; the chaebols’ financial and commercial capital affiliates also accounted for a large proportion (K.-P. Kim 2018, 200–201). The chaebols continually financed capital and earned a profit by running financial affiliates in the domestic market after 1987. This trend expanded as the national disciplines collapsed and liquidity increased rapidly in the late 1980s. As a result, in the 1990s, the chaebols began to acquire or establish general finance companies and credit-card companies.

The Outcome and Contradictions of Neoliberal Strategy and the 1997 Economic Crisis

After 1987, the chaebols gradually accumulated capital in a neoliberal way while struggling with labor, but their focus was still on the heavy and chemical industries. Production and sales of semiconductors, motors, petrochemicals, ships, and steel played a primary role in capital accumulation, and these industries allowed the chaebols to become leaders in the global market. From 1987 to 1997, although the rate of profit in the Korean manufacturing sector declined (Jeong 2004; Hong 2013), the 30 largest chaebols made five times more profit than in the previous period. Concentration of sales exceeded 40% in 1989 and even increased after the mid-1990s. The net profit of the five top chaebols—Hyundai, Samsung, LG, Daewoo, and SK—reached 292 million USD in 1987, then exceeded 735 million USD in 1989, followed by 6,579 million USD in 1995. However, circumstances changed after 1995. The Reverse Plaza Accord marked a watershed moment in Korea. The US bailed out the Japanese manufacturing economy that was slowing due to the ascent of the Japanese yen, and Korean capital
rapidly lost its competitiveness in the export market in the aftermath of the exchange rate regulation (Kim 2019b, 29). Moreover, as instability in the Southeast Asian economy and global economy deepened due to financial globalization, the Korean government announced drastic financial liberalization and deregulation in late 1994. In these circumstances without governmental disciplines, the enforcement of liberalization and deregulation policies stimulated the chaebols’ neoliberal strategy. Yet this process also created contradictions of capital, which exploded into a crisis in 1997.

Among the chaebols’ neoliberal strategies, the most troublesome during this period was strong growth-orientedness and globalization. Due to enlarged capabilities and the absence of governmental disciplines, the chaebols raised short-term capital directly from the global financial market for aggressive investments at home and abroad. They also invested some of their capital into the acquisition and establishment of non-bank financial institutions to accumulate financial capital. As liquidity expanded and the stock market grew rapidly due to the Olympics and elections in the late 1980s, the chaebols invested intensely in the financial market, despite high debt, and were able to earn a profit or finance investment through these institutions. However, after the economic recession and Southeast Asia’s financial crisis, the chaebols’ high level of debt caused a maturity mismatch and eventually led to an economic crisis (Chang, Park, and Yoo 1998, 738–739).

The globalization of the chaebols was only possible through massive financing due to internal and external loans but, since it did not result in profits, this globalization triggered a deeper crisis. Korean corporations did not have any dominance in the global market besides the capability to invest heavily in the short term (Song and Lee 2005, 51; K.-P. Kim 2018, 206). They focused on exports and exhibited a high dependence on certain products based on a volume increase, which forced them to bear sizable risks as the global market became unstable. As the price of semiconductors plummeted after 1996, some chaebols and the Korean economy suffered greatly. The Korean government failed to implement appropriate measures, despite clear symptoms of the economic crisis in late 1995. This resulted in many chaebols declaring bankruptcy. At the same time, the financial crisis in Southeast Asia in 1997 significantly affected Korea. As the Korean government failed to receive bilateral financial support from the US, Japan, and China, it had to apply to the International Monetary Fund (IMF) for a bailout as desired by the US (Kim 2019b, 29–30).

The Intensification of Neoliberal Strategy

The IMF program was created as a result of the bailout negotiations between the Korean government and the IMF. This program reflects the interests of three main participants (Ji 2011b, 248–250). The first was the IMF, whose standard policies included a tight monetary and fiscal policy and the decrease of debt as well as
governmental intervention. The second was the US Treasury and Wall Street, which required liberalization of financial and capital markets along with trade. Wall Street’s intention was to accumulate capital in the Korean market more easily (Wade and Veneroso 1998). The economic bureaucrats of the Korean government were the third participants, who learned neoclassical economics in the US and considered the US economy to be a global standard. Since the 1980s, they have been attempting to change the Korean economy according to the US model. For example, they want chaebols to resemble US corporations by pursuing financial reform, decreasing debt ratio, and setting an institutional limit on owner governance as well as unrelated diversification. They also ordered the introduction of layoffs and dispatch-work systems (Ji 2011b, 248–250). Similar to the IMF and the US, Korean economic bureaucrats blamed the chaebols for the crisis, insisting that their mismanagement and corruption, caused by collusion between the government and businesses, gave rise to the crisis. Thus, the bureaucrats suggested a transformation of the chaebols and labor reform as solutions.

The IMF program was implemented, and the cost of crisis management was passed on to the laborers unilaterally. Most of the Korean economy was newly created or reorganized. The financial market shifted rapidly, and the chaebols had to adapt. They did not agree with the program yet could not resist as they had already lost social legitimacy and the government had authority (Kim 2019b, 29–30). The chaebols could go bankrupt unless they followed the government’s program. After democratization in 1987, the government could not control the chaebols, but since the government was managing the crisis, it temporarily was back in power. However, as time passed, select chaebols revolted against the government. The chaebols succeeded in serving their own interests, especially in the factors directly related to the owners such as the transformation of corporate governance (FKI 2011, 615–621). But the chaebols had to accept core policies, including the improvement of the financial structure for a decrease in debt and unrelated diversification. Eventually, the government and the chaebols reached a compromise. They decided to maintain the existing governance system and accumulation process for the most part, in return for strengthening management transparency, lowering the debt ratio, valuing cash flow, and increasing short-term profits.

The chaebols had to reorganize their existing strategies primarily by retreating from strong growth-orientedness. The new financial market and business environment forced them to value profit (cash flow) and lower the debt ratio. Now, the chaebols’ success was not guaranteed by high debt on loans, a competitive advantage created by facility investment based on massive funding power, and a long-term profit strategy. Daewoo, which once was a symbol of globalization and the third biggest chaebol in the 1990s, went bankrupt because it failed to reorganize its strategy as quickly as others. Reorganization from growth- to profit-orientedness
meant that the chaebols’ neoliberal changes yielded progress. However, the chaebols preserved the mobilization of resources to protect the owners’ interests. The power of the owners strengthened in the process of crisis management, while the status of financial affairs improved.

In fact, the ownership shares of foreign capital increased after the crisis. In particular, those shares of the top chaebol affiliates with the highest profits reached almost half of the entire share. Initially, foreign capital criticized the owner domination of the chaebols. However, since the chaebols could guarantee a certain amount of stock margin and dividends, they could not find a reason to assert transparency of corporate governance and transformation (Yoo 2004, 218–219). Even though there was strong external pressure to change the owner governance system into a shareholder governance system, the chaebols could maintain the former by continuously resisting the government and providing stock margins and dividends to shareholders. The chaebols were managed in a way that prioritized the interests of the owner and major shareholders among various stakeholders (Kim 2020, 283).

During this period, the chaebols deepened their globalization and flexibilization. Even though the contradictions of globalization had produced negative consequences, globalization and flexibilization were the best ways to lower costs and increase profit when sales plummeted and competition among capitals intensified. The chaebols financed, produced, and distributed more broadly and weakened labor more aggressively. In production and distribution, the chaebols implemented active localization, deepened vertical integration, and established a global production base while taking the lead in the East Asian production network (Lin 2009; Nam 2019). According to the Export-Import Bank of Korea foreign investment statistics survey, the chaebols invested not only in East Asia but also in North America and the EU to develop and adapt technology. Moreover, after overcoming a general strike in 1996 through an alliance with the government, the chaebols could turn the crisis into an opportunity for the proliferation of flexibilization. They adopted management tools from US capital, such as business process reengineering (BPR), 6-Sigma or enterprise resource planning (ERP) and spread discourse that allowed workers to identify themselves with capitalists (Seo 2011, 82).

Furthermore, income, employment status, and labor tasks that could not be fully implemented due to the resistance of the labor force before 1997 became more flexible (Cho 2011; Jeong 2013, 315; W.-B. Lee 2015; Kim 2020, 284). First, the chaebols attempted to reduce the share of wages in production costs by implementing an annual salary system and payment based on production. Second, they reduced the coefficient of employment through layoffs and legalization of dispatch-work systems, and increased outsourcing and irregular workers. The chaebols increased spinoff, subcontracting, and cut delivery prices in the process. Third, in order to deepen functional flexibility, the chaebols intensified the
integration of the job and imposed long work hours. Laborers lost their voice and failed to resist effectively because of the “divide and rule” of the capital, which can be seen in Samsung’s labor control. Samsung classified employees into regular or irregular workers, headquarter or subcontractors, domestic/international affiliates, or international subcontractors, giving preference to the former through central positions while placing the latter in marginalized positions with poorer treatment (Chang 2006; Choi 2008).

Even though the chaebols’ neoliberal strategy intensified after the 1997 economic crisis, their distinct method of capital circulation and accumulation has largely remained the same through the present day or become variegated in some cases. The chaebols still mobilize their resources for owners’ families. At the same time, however, they have greatly increased dividends and self-tender and retained earnings to handle any sudden increase in foreign shares and risks. Dividends of listed corporations reached almost 10 billion USD in 2004 and 13 billion USD in 2007; among these, 5.4 billion USD belonged to foreign investors. Foreign dividend income among national investment income rapidly increased from 9.9% in 1990 to 45.8% in the 2000s (Seo, Kim, and Lee 2011, 139). Self-tender also grew, with the top five chaebols’ purchases of treasury stock increasing almost six times from 1998 to 2001. In the case of Samsung Electronics, dividend payments and self-tender increased from 30 to 50% after the crisis (Lee, Jeong, and Choi 2014, 150). Retained earnings present a similar tendency, increasing steadily after the crisis. In the case of the top 30 chaebols, the retained earnings increased 275% from 2006 to 2015. These characteristics are a result of changes in owner governance and shareholder value maximization, and therefore can be considered the most distinct characteristics of the chaebols today.

Another characteristic is that chaebols are flexible in terms of forms of capital; they take different forms of industrial, commercial, or financial capital according to the circumstances. The chaebols had procured capital and made a profit in the domestic market by running financial affiliates rather than pursuing financial globalization. However, they refrained from running financial affiliates after the crisis, unlike the US capital that competitively stepped into financialization. Yet for many chaebols, managing financial affiliates was not conducive to debt and profit. However, as the regulation of the division of finance and industry weakened in 2009, the chaebols began to step up. The number of financial affiliates in the top ten chaebols rapidly increased from 36 in 2008 to 55 in 2015. At this point, the chaebols resembled the US capital according to the level of financialization, as industrial capital began to accumulate capital in the form of financial capital. It is true that the level of financialization in Korea remained similar to the US in the 1980s, but the financial profit of the chaebols’ manufacturing affiliates increased steadily (Park, Cho, and Cha 2017, 117–119). In this context, the chaebols
resembled US capital at least partially in financialization, while still circulating and accumulating capital regardless of the form as in previous years.

In addition, the chaebols’ neoliberal strategy exhibits their distinct approaches to diversification and labor management. Unlike the capital of advanced capitalism, the chaebols earn a profit through continuous unrelated diversification. The IMF program put a hold on unrelated diversification, but as the government weakened regulations in 2009, the chaebols expanded this approach again. The number of sectors engaged in the chaebols has increased since 2009, with the average of the top four the chaebols soaring to 23.25 in 2010 and 28 in 2012. This trend can also be seen in the top 20 chaebols. As in the past, a few key affiliates created most of the chaebols’ sales and profit. However, new affiliates were established in the service industry—which was dominated by small and medium enterprises or the self-employed—for the owners’ families to inherit the businesses and assets (Kim 2020, 283–284). Lastly, in the case of labor management, the chaebols failed to eradicate the traces of authoritarian militarization. Unconditional obedience to the boss, a rigid organizational culture, and a strict hierarchy are still widely reported as chaebol characteristics. Table 1 summarizes the neoliberal strategy of the chaebols.

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The Outcome and Contradictions of Intensifying Neoliberal Strategy

Although one-fourth of the 60 largest chaebols collapsed before or after the 1997 crisis, some survived by responding quickly to the crisis and restructuring. Moreover, based on their neoliberal strategies, a few affiliates, including Samsung Electronics, LG Electronics, Hyundai Motors, and Hyundai Heavy Industries Group, experienced
success in semiconductors, motors, mobiles, computers, and shipbuilding. As Samsung emerged as global capital, chaebols became super chaebols, now dominating the Korean economy. The fact that many referred to the Korean economy as the “Republic of Samsung” after the mid-2000s reflects these circumstances. In many economic sectors such as sales, capital, exports, and investments, the concentration of a few chaebols, including Samsung, Hyundai, and LG, increased dramatically after 1997, further solidifying the dominance of a few chaebols in the Korean economy (Lee 2012, 96, 126; Park 2013, 362–363; Wi 2018).

Moreover, neoliberal strategy caused a rapid increase in total sales and return on assets (ROA) of the chaebols. On the other hand, the ratio of labor costs to total sales failed to recover from the crisis. It even decreased after 2007, reaching an all-time low of 2.2% in 2011. This figure reveals that the profit increase of the chaebols is closely related to flexibilization. Labor’s contribution to corporations’ profit fell significantly across fields of business, while the distribution index worsened due to a controlled wage increase and extended wage difference. Moreover, capital’s portion of newly created wealth after the crisis increased, so that the ratio of the corporate profit in national disposable income tripled from 4.2% in 2000 to 13.8% in 2010 (Lee 2012, 91, 124; Lee 2011, 184–185; Park 2013, 361). Since 1997, the rate of profit of the Korean manufacturing sector has also increased (Hong 2013; D. Kim 2018).

Some contradictions arose in the intensifying of the chaebols’ neoliberalism after 1997, but it did not result in an economic depression like in 1997. The 2008 financial crisis, which could have been a threat to the chaebols and the Korean economy, was not as severe since the government-led Korean financial market was not securitized enough (Jun 2011); the chaebols implemented profit-oriented management but less financialization. However, the contradictions still exist and could lead to a crisis through a specific event or spatio-temporal conjuncture. An increase in dividends, self-tender, and retained earnings can reduce real investment and cause inequality in investments among corporations, thus possibly damaging future business engines. Moreover, as a small minority enjoys more profits, the purchasing power of domestic consumers could decrease, and collective discontent toward the chaebols may develop. Finally, globalization and flexibilization could lead to a decreased domestic demand, increased instability, reduction in the formulation and innovation of a firm/industry-specific skills, and a growing probability of labor resistance.

The Chaebols’ Neoliberal Strategy with Korean Characteristics

The Chaebols’ strategy after 1987 can be referred to as neoliberal, because it is a project to restore capitalist class power and counteract labor. To this end, the chaebols adopted American and Japanese strategies and implemented
globalization and flexibilization. The chaebols actively promoted their opinions to political parties and the government and challenged policies until the government could no longer impose disciplines. After enduring the 1997 crisis, the chaebols shifted from growth- to profit-orientedness due to external pressures, and neoliberal strategy intensified due to an emphasis on globalization and flexibilization. However, the chaebols’ neoliberal strategy should be defined as distinctly Korean. The chaebols have conducted shareholder value maximization and have been profit-oriented since 1997. However, they still maintain corporate governance in which the ownership and management are combined, mobilize resources for the owners’ objectives, and conduct unrelated diversification. In addition, the chaebols have accumulated capital by transforming themselves into industrial, commercial, or financial capital since the 1950s. Even though industrial capital has been the foundation for the chaebols since the 1960s, they also ran commercial and financial capital affiliates. In Korea, the chaebols resembled US capital at least partially in financialization due to merging different forms of capital that already existed.

Neoliberalism has been regarded as a macro-societal concept identified as ideas, theories, and sets of policies. However, neoliberalism may also be a capital accumulation strategy to counteract labor and obtain greater profit to cope with the accumulation crisis. The neoliberal strategy of the chaebols was significantly affected by how the chaebols understood and participated in the dynamics of global and East Asian capitalism. Their relationship with the government was another key element since the nature of the government is usually determined by the power relationship between social forces. The chaebols wanted to implement their strategy with complete autonomy from the government. Moreover, the complex relationship of power and conflict among stakeholders—including the owner, CEO, shareholders, and labor—also played a significant role in creating such distinct characteristics in Korea. In short, the chaebols’ circulation and accumulation of capital occurred in complex environments involving struggle, not in a vacuum. The Korean characteristics of the chaebols’ strategies are also deeply affected by the historical context. Korean capital was created in a distinct spatio-temporal conjuncture with unique social relations. However, by examining the neoliberal strategy of the chaebols, we can find a form of unleashed capital and reconsider the dynamics and contradictions of neoliberal capitalism.

Notes

1. Unless otherwise indicated, references to Korea in this article refer to South Korea.
3. The 1985 Plaza Accord was an agreement among the G5 nations (France, Germany, the US, the UK and Japan) to depreciate the US dollar against the Japanese yen and German Deutsche mark
by manipulating exchange rates. As the value of the Japanese yen had risen, Korean companies had the opportunity to increase their international price competitiveness.

4. The way of the Japanese Meiji army entails (please check this sentence) unconditional obedience and fidelity, competition among departments, and control of private activities. See Maruyama (1963).


6. The most representative example is the presidential bid of Chung JuYung, the owner of Hyundai Groups, in 1992.

7. As Harvey (1985, 146) notes, structured coherence embraces the forms and technologies of production, the technologies, quantities, and qualities of consumption patterns of labor demand and supply and of physical and social infrastructures. The territory within which this structured coherence prevails is loosely defined as that space within which capital can circulate without limiting profits within a socially necessary turnover time being exceeded by the cost and time of movement.


9. The chaebols established a framework where the owner and owner’s family own and control the corporation and built a system in which all the resources of the group are mobilized for their domination and interests with the secretariat at the core. An interesting point is that the organizational form of the chaebols echoes that of the military regime where all societal resources were mobilized and distributed by the former military president and his followers for economic development, forming the foundation of survival and legitimacy of the administration (Kim 2017, 239–240).

10. From 1990 to 1996, the average investment ratio of Korean companies to total domestic expenditure was 30–40%, and the debt ratio of the top 30 chaebols was 362.5% in 1990, 362% in 1995, and increased to 412.2% in 1996.


12. At this time, the Korean government (Globalization Committee 1998) used liberalization and deregulation policies as a tool to overcome the drastic collapse of the approval ratings of the president and to pursue rapid development and growth (please check this sentence). This discourse of competitiveness argued that Koreans are confronted with global competition and must survive by working industriously.


14. The pressure was not only from the Korean government, IMF, US Treasury or Wall Street but also from Korean NGOs (Park and Kim 2008).


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