



# Socio-spatial dialectics of crisis formation and the 1997 crisis in Korea

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## ABSTRACT

The paper challenges the economic accounts of the 1997 crisis by stressing not only the role of time and space in the overall dynamics of Korean capitalist crisis formation and fixes, but also the dialectical relationship between capitalist dynamics in Korea and changing conditions of international political economy. Drawing on socio-spatial dialectics, the paper examines the evolutionary aspect of crisis formation and fixes and the role of financial dynamics in deployment of the crisis by drawing on a Minskyan notion of progressive illiquidity. In doing so, I examine how Fordist crisis and neoliberal turns in Anglo-American and Japanese economies co-evolved with peripheral Fordism through two critical junctures: the 1987 Great Labor Struggle and financial liberalization in the early 1990s. The paper argues that dialectical processes of crisis formation and fixes led to new articulations between Korea and the international economy. Within international production networks, Korean firms set their position at the low-end of the high technology tier within regionalized production networks. In the process of building their position in production networks, Korean firms had to rely on expanded liquidity in international financial markets which allowed them to invest in unprofitable ventures in the mid-1990s. These dynamics in finance and non-finance sectors led to a double vulnerability of overaccumulation and progressive illiquidity in Korean political economy that culminated in the 1997 crisis in Korea. In short, what mattered in the crisis dynamics of the 1990s is a coupling of crisis formation in capitalist production with Minskyan financial dynamics that perpetuate progressive illiquidity at multiple geographical scales.

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## 1. Introduction

For geographers, scholarship of crisis tends to be a seasonal business. In the midst of crisis, geographers lament their lack of presence and the unrealized potential of geographical research on economic/financial crises (Engelen and Faulconbridge, 2009; Kelly et al., 2001). However, crisis theory has never been widely debated among geographers (or other social scientists) except when the outbreak of crises has led to special theme issues (e.g. Geoforum, 2001; Journal of Economic Geography, 2009). Existing geographical research on crisis tends to focus on empirics of post-crisis impacts on different institutions and places (Geoforum, 2001; Journal of Economic Geography, 2009) or preliminary theoretical engagements (Park, 2001; Webber, 2001) that tend to be short of constituting 'geographical theories of capitalist crisis' (exceptions include Glassman, 2001, 2003, 2007; Harvey, 1981, 2006[1982]; Webber and Rigby, 1996). However, as McNally (2009) points out, a proper study of contemporary crisis requires geographical understanding of long-term deployment of crisis dynamics in multiple places and scales. To fill some theoretical and empirical gaps in geographical research on crisis, in this paper I critically engage with economists' explanations of the 1997 South

Korean crisis and propose a geographically nuanced explanation of the crisis. In so doing I attend to dialectical relations between economic processes and their spatial configurations at multiple geographical scales.

In their discussion of the 1997 crisis, economists, regardless of their theoretical camps tend to prioritize certain spatial scales that are tied to their epistemologies of crisis. Neoclassical economists attribute the 1997 crisis to the weakening fundamentals of Asian economies that led to the systemic fragility to external shocks (e.g. Corsetti et al., 1999). In so doing, they construct a *localized* epistemology of the Asian crisis, attributing the crisis to the failures of crisis-stricken economies while defending the validity of the *globally viable* capitalist market mechanism. Temporally, they treat the crisis as a temporary breakdown of otherwise harmonious workings of the capitalist system and see it as an opportunity to improve the system.

Institutionalists attribute the crisis to the breakdown of the historically evolved Korean development model that resulted in the weakening roles of the government in coordinating the behaviors of economic actors and resource allocation in the economy as a whole, and thus made the Korean economy vulnerable to the whimsical ebbs and flows of international financial capital (Chang et al., 1998; Lee et al., 2002; Wade and Veneroso, 1998). Temporally, institutionalists consider the 1997 crisis as a temporary

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breakdown of the localized Korean model while denying its intrinsic fallacies. They argue that reoccurrence of the crisis can be prevented by restoring the integrity of the old developmental coordination centered on the state in response to new political economic challenges.

Marxists tend to view the crisis in Korea as a local manifestation of general capitalist dynamics, contingent upon political-economic conditions of Korean society<sup>1</sup> (e.g. Burkett and Hart-Landsberg, 2001; Chang, 2001; Hart-Landsberg et al., 2007; Jeong et al., 2006). They suggest that the 1997 crisis resulted essentially from the general contradiction of capitalism, i.e. the long-term tendency to a falling rate of profit mainly due to rising organic composition of capital and wage-profit squeeze after the 1987 Great Labor Struggle (Jeong, 2006; Kim, 2009). Temporally Marxists view crisis formation as a cyclical movement, treating it as an integral part of capitalist accumulation because it relieves heightened overaccumulation through depreciation and creates new foundations for future rounds of accumulation cycles (Kim, 2006).

These economists' approaches to the 1997 crisis reveal some theoretical gaps. First, these studies tend to rely on what Brenner calls methodological nationalism or Agnew's territorial trap—with the global scale treated 'out there.' They pay little attention to interdependence between crisis formation at different geographical scales—e.g. mutually reinforcing crisis formation in networked economies at the international scale and uneven geographical impacts of crisis at the sub-national scale (Glassman, 2003).<sup>2</sup> Second, these approaches reduce crisis to a temporary disruption/break from long-term stability of capitalist development. In so doing, they underplay the long-term evolution of spatial configurations at multiple scales that condition general capitalist dynamics of individual economy and vice versa. In addition, economists pay little attention to the strategic role of the state in shaping spatio-temporal fixes to crisis formation at different scales, while focusing on the juxtaposition of the state (the political) versus market (the economic) in a binary contention.

To fill these gaps, I develop a relational approach that stresses spatio-temporal dynamics of crisis formation. Specifically I examine how both domestic and international conditions have circumscribed crisis formation in the Korean economy, and how various spatio-temporal fixes by capital and the Korean state at different geographical scales have co-evolved since the 1980s. In particular, I attend to the ways in which the Korean state apparatus has re-scaled and rearticulated its powers, institutional forms, and regulatory capacities in order to sustain competitiveness in the emerging spatio-temporal matrices of capitalism (Jessop, 2003: 16, 19).

This paper examines these evolutionary and dialectical interactions of domestic and international transformations that culminated in the 1997 crisis in Korea. In so doing, I try to look beyond immediate events and disturbances and understand wider and long-term transformations (e.g. McNally, 2009). I suggest that

two critical junctures set the conditions for Korean crisis formation in the 1990s. The first critical juncture came when the 1987 Great Labor Struggle destabilized the oppressive capital-labor regime that supported Korean industrialization under the auspice of the developmental state, and reduced the profit share for capital. The second juncture came when financial liberalization in the early 1990s shook the fundamental blocks of the Korean developmental regime and exposed the Korean political economy to the systemic volatility of a neoliberal world order. These domestic transformations occurred in parallel with new developments in the international political economy; a shift in US geopolitical strategies toward international economies and a transition from Fordism toward post-Fordist regime à la neoliberal finance. The paper traces how these dynamics at different scales co-evolved through these junctures and culminated in South Korea's crisis in 1997.

The paper is organized as follows. First, I critically review geographical accounts of the 1997 crisis and propose an alternative framework for a spatio-temporal understanding of crisis formation. Second, I provide a brief summary of the postwar Korean political economy as a late industrializer in relation to the Fordist core. Third, I examine how the 1987 Great Labor Struggle reconfigured capital-labor relations in the Korean political economy and led to spatio-temporal fixes at multiple scales; and how a strategic shift of the US in international economic affairs and the Plaza Accord circumscribed those fixes by the Korean state and capital. Fourth, I map new geographies of foreign direct investment and trade, and reveal a new positionality of Korea in a networked space economy at the regional scale of Asia that emerged out of these domestic and international reconfigurations. Fifth, I examine how these changes in the late 1980s facilitated the introduction of neoliberal reforms and disintegration of the state-*chaebols*-finance nexus, the second critical juncture. Sixth, the paper examines how these two junctures heightened crisis formation at different geographical scales and finally culminated in the 1997 crisis in Korea. In particular, I examine how the investment behaviors of Korean *chaebols* and the lending behaviors of domestic and international financial institutions introduced progressive illiquidity into the system in the mid-1990s. In conclusion, I argue that the 1997 crisis in Korea is not just the cascaded outcome of global crisis tendencies but the outcome of mutually constitutive processes between transformations of the domestic and international political economy that exposed Korea to a double crisis of overaccumulation and neoliberal financial volatility.

## 2. Toward a dialectical approach to a geographical understanding of crisis

Only a few geographers have attempted to theorize the relationship between geography and crisis in capitalist space economy drawing on both orthodox and neo-Marxist literature (Glassman, 2001, 2003; Glassman, 2007; Harvey, 1981, 2006[1982]; Webber and Rigby, 1996). In this section I critically review the arguments developed by these scholars and provide some ways to build upon them for the present research. Drawing on Marx, Harvey (2006[1982]) attends to capitalist cycles oscillating with "general temporal rhythm of overaccumulation and devaluation" (300) in which crisis functions as "the irrational rationalizer of the economic system" (305). For him, the Asian financial crisis was a localized devaluation that was part of "a cascading and proliferating series of spatio-temporal fixes" in an attempt to avoid major setbacks in regional economies of the triad of the US, Japan and Europe (Harvey, 2003: 121). Harvey however rarely comes down to a messy geographical and historical deployment of crisis in the periphery while focusing on the dynamics in the core and their cascading impact on the periphery. Nor does he try to discuss how

<sup>1</sup> I agree with Harvey (2006) and Glassman (2007), suggesting that recent crisis dynamics involve such elements as wage-profit squeeze, underconsumption, and a rising organic composition of capital, each of which has unique spatial dynamics and that any reasonable explanation of crisis requires a combination of these difficulties in the system. Following them, I use the term overaccumulation in order to capture complicated aspects of contemporary crisis dynamics that defer mono-causality of crisis formation.

<sup>2</sup> The analysis of this paper is limited to interactive processes between the domestic and international scales. Like Glassman's (2003) analysis of Thailand, Korean statistics of gross regional domestic product (GRDP) show that provincial metropolitan areas such as Incheon, Kwangju, and Daegu marked the biggest decline in growth rate of GRDP, followed by Kwangwon, Jeju, Choongnam, and Seoul while Keonggi and Choongbuk provinces show the smallest decline (National Statistical Office, 1999, 2000). However, these statistics require much more contextual analyses to provide meaningful information on crisis dynamics. I acknowledge that the analysis of these subnational geographies of crisis dynamics is important but feel that it requires another paper for a proper treatment of the issue.

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