Rejecting the universality of neoliberalism: A study of capitalism in India and South Korea

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Abstract

Neoliberalism has long been put forward by leading Western capitalist actors as a universally applicable model for economic development. This paper rejects this supposed 'universality' by studying the economic development and rise of capitalism in India and South Korea. India's production, economy, and political institutions were decimated under British occupation. Since independence, India has struggled to build up its economy while establishing a stable government. Forced to turn to neoliberalism to secure loans and keep up with established economies, the cycle of poverty established in colonial times has only been reinforced. In contrast, South Korea has been able to establish a flourishing economy through following its own form of state-guided capitalism. In a similar economic position to India after suffering Japanese occupation and the Korean War, South Korea rejected neoliberal policy and built up their industries within the national economy before joining the global market. Thus, while neoliberal policy may be suited to the Western nations it was designed in and for, it is not necessarily suitable for the culture and economic realities of other nations. Ultimately, the failings of neoliberalism in India and the success of South Korea's tailored capitalist system serve as evidence to reject the 'universality' of neoliberalism and encourage the establishment of localised socio-economic practice.

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Capitalism and neoliberalism have been major shaping forces of society on a global scale, determining the path of development for countries in the modern world. As neoliberalism emerged as the dominant capitalist ideology, its policies were propagated by the West as part of a universally applicable linear model for economic development. Through comparing capitalism in postcolonial India, where the lingering effects of colonialism left the economy vulnerable to the neoliberalist movement, with capitalism in South Korea, where neoliberalism was rejected in favour of state-led capitalism, I argue to dismiss the supposed universality of neoliberalism. No single set of beliefs and policies, particularly a set which are largely tailored to the economic, political, and cultural state of the Western world, will be successful globally. It is only through creating an economic system tailored to the specific cultural, historical, and financial context of a nation that they will be able to achieve prosperity.

In order to make this comparison, I will first lay out the features and qualities set neoliberalism apart from capitalism as a broader politico-economic system. Capitalism emerged as an economic system in sixteenth-century Europe, characterised by the privatisation of the means of production in a society, where a lack of state regulation opens the market to free trade governed by the laws of supply and demand (Schweickart, 2011). Private industries aim to generate the maximum possible surplus, which is reinvested into production in accordance with the expansionary nature of capitalism, theoretically producing infinite economic growth (Sklair, 2015). The last crucial feature of this system is the institution of wage labour, performed by most members of society for the owners of the means of production. Although these characteristics are used to define the capitalist system, they can be seen to varying degrees under different forms of capitalism. Schweickart (2011) examines one such point of contention: the use of the term 'free market' as a defining trait of capitalism. He explains that this is a misconception, as virtually all modern capitalist societies use some form of price regulation, such as differential taxes, subsidies, or tariffs. Various forms of capitalism can be defined by the extent to which these characteristics operate; while laissez-faire or liberal economies operate with little to no intervention or regulation, mixed economies operate with a blend of market freedom and a higher level of government regulation, and state-guided economies maintain private industry with a strong level of regulation and control by the government (Jahan and Mahmud, 2015).

Neoliberalism emerged more recently as a form of capitalism with a specific set of politico-economic beliefs and policies. Neoliberalism promotes market fundamentalism, that is, the idea that the market should regulate not only itself, but also most social institutions, minimising state intervention in both business and social welfare (Bockman, 2013). Neoliberalism has also been linked with economies opening to international institutions and cooperations, with international development organisations such as the International Monetary Fund (IMF) and the World Bank being implicated in the process of neoliberal globalisation (Larner, 2003). Labonté (2019) explains that the radically individualistic approach of neoliberalism spread rapidly, as it arrived at a time when the Western world felt threatened by the growth of socialism and wished to combat the rise of socialist-leaning structures of governance. The modern understanding of the term 'neoliberalism' is credited to intellectuals and institutions in post–World War II Western Europe and the USA. This new system was designed to be distinct from classic liberalism, while simultaneously providing an alternative to growing collectivism, state-led systems, socialism, and communism (Ganti, 2014). Due to burgeoning Cold War tensions, the USA, and by extension their allies, were eager to encourage any nations seen leaning towards these ideologies back towards the side of neoliberalism, and in their eyes, away from the USSR.

Neoliberalism quickly spread through the Western world, followed by many countries that were left vulnerable to Western influences post-colonisation, allowing neoliberalism to become the dominant global capitalist ideology. Tharoor (2017) explains that India's introduction to capitalism came during its time as a colony of the British Empire (1858–1957), when the country was governed purely to support the economic growth and rise of the industrial revolution in England. An official of the East India Trading company wrote that during the occupation India's 'trade languishe[d]— … the people [were] impoverished—the Englishman flourishe[d], and act[ed] like a sponge, drawing up riches from the banks of the Ganges, and squeezing them down upon the banks of the Thames' (Tharoor, 2017). The economy was left in ruins, and upon decolonisation in 1957 the newly independent Indian government had to set up political and economic systems capable of standing on their own. Simultaneously, they were thrust into competition in the international market alongside colonial powers that held the advantage of the explosion of industrialisation and economic growth that had come at the direct expense of colonised nations. As was the case for most former colonies, incorporation of the nation into the global economy preceded the construction of efficient and coherent socio-economic systems and political institutions (Osterhammel, 2013). These countries were unable to compete with the highly industrialised nations of the West that held longstanding and highly developed socio-economic and political institutions.

As India attempted to strengthen the nation's institutions and economy, neoliberalism rose, with outcomes that refute the supposed universality of neoliberalism. Adhia (2015) outlines the struggle of the newly independent Indian government's initial attempts in the 1950s and 60s to increase national self-subsistence by prioritising investments in rapid, state-operated industrialisation over agricultural projects or private industry. State-led enterprise failures such as the Haldia fertiliser plant, which the Indian government operated for 21 years without producing any fertiliser, showcased the lack of economic considerations in India's early political decision-making. The inefficiencies of these investments proved to be costly and the new policies fell through, pushing agrarian India and other disadvantaged populations further into poverty, forcing the government to let go of their state-led development strategies in the 1990s and move towards policy led by privatisation and neoliberalism. This change was in part a decision of the Indian government, and in part at the behest of the IMF (Adhia, 2015). The IMF is known to attach neoliberal policy conditions to its loans, contributing to a shift into neoliberalism in many developing countries (Chorev and Babb, 2009). While the rise of neoliberalism has allowed for some growth in India's economy, welfare and progress for impoverished and agrarian Indians has remained relatively stagnant. The lack of low-skill manufacturing jobs perpetuates the cycle of poverty and fails to provide an alternative for agrarian-based lower classes (Adhia, 2015). Under the ideals of neoliberalism, they would supposedly be able to lift themselves out of poverty through entrepreneurship without the need for welfare. This has not been possible, as the historical and economic reality of India is vastly different to that of the Western countries recommending this strategy. The millions driven into poverty by the effects of colonialism are trapped in a cycle of poverty perpetuated by the practice of neoliberalist social policies that do not consider the socio-economic context of the nation.

South Korea has been able to raise itself out of poverty and forge a highly successful economy by rejecting neoliberalism and following a financial system more suited to the realities of the nation. Kimura (1995) explains that industrialisation came late to South Korea, as the country was a low source of manufacturing and exports during Imperial Japanese occupation, with Japanese colonial rule choosing instead to primarily invest institutional and financial support into the agricultural sector to combat rice shortages faced in Japan. Imperial Japanese investments into Korean industrialisation were concentrated in what has now become North Korea, creating a disparity in the industrial capabilities of the two Koreas upon separation (Mizoguchi, 1979). The country's financial position worsened during the Korean War, which left South Korea as one of the world's poorest countries with no choice but to turn to foreign aid (Kim and Kim, 2022). South Korea has been a rare example in which use of international financial aid has allowed the recipient country to undertake economic development that is self-sustaining and encourages government ownership (Kim, 2011). Although accepting aid from the US, South Korea went against US and IMF advice about how to manage the loans, instead following a development strategy catering to the realities of the country, drawing from both economic and cultural factors (Kim and Kim, 2022). While the strategies of the US follow the individualistic ideals of neoliberalism, South Korea's state-guided capitalistic structure has incorporated traditional values of collectivism in the governance systems and national ideology (Tan, 2015). The success story of South Korea is led by these choices to reject neoliberalism and focus on developing their own state-guided form of capitalism.

The South Korean development strategy has provided a glimpse into the possibilities for growth when countries follow a financial system that is tailored to their local reality. South Korea took loans, not investments, and rejected privatisation, focusing investments in sectors that would maximise growth in order to address the under-developed industrial legacy of Imperial Japanese occupation, such as construction, steel, and chemical production (Kim, 2011). By building up diversified chaebols (South Korean business conglomerates) and refusing to engage in free trade until these companies were strong enough to compete, when South Korea finally opened up to international market they were able to penetrate the lower end of foreign markets and begin expansion from the ground up (Kim, 2011). The process of developing the domestic industry increased work opportunities and dramatically reduced poverty. The South Korean government had been increasingly involved in welfare, once again going against neoliberal policy conditions and prioritising collectivism by expanding social protections, protecting minimum living standards, prioritising education, and emphasising development in human resources (Kim and Kim, 2022). Through success of their localised strategies, South Korea has now become known as a pioneer of country ownership in aid. It was through their rejection of the neoliberal model through commitment to state-led economic and social development that South Korea was able to achieve the prosperity seen in the country today.

South Korea's success in the global market can be largely attributed to the government's decision to steer the nation away from neoliberal policy, while in contrast, the failures of the Indian economic development story are deeply rooted in their implementation of these supposedly 'universal' neoliberal policies. South Korea had a comparable level of development to India in the 1950s, but the difference in economic strategies has led to a superior performance by South Korea (Adhia, 2015). Of course, other elements in these nations' strategies that have led to the current condition, such as the state of the democratic institutions upholding these values and their influence on development. Since the end of British occupation India has committed to establishing and upholding democracy, but the institutions have been plagued by corruption, in which the powers of office have been abused for personal gain, rather than invested into economic growth and increasing social welfare (Sun and Johnston, 2009). The actions of officials have made it impossible to resolve the issues hindering India's progress, such as rural development, income inequality, and job shortages. Conversely, the implementation of democracy in South Korea has been highly successful despite early setbacks. Park (2019) attributes this to a 'convergence of interests' between the country's leader, government, companies, and peoples, which created strong social mobilisation working towards the nation's development goals while ensuring no increase in inequality was felt during the development process. It should also be noted that when India tried to progress using state-led capitalism, this also led to economic failure, serving as evidence that we can reject not only the universality of neoliberalism as an economic system, but also the universality of state-led capitalism. I propose that we reject the universality of any one socio-economic system, and encourage states to use introspective economic analysis and follow their own localised system tailored to the realities of the nation.

Neoliberalist policy has arguably been successful in the Western countries it was developed for, with financial and political institutions already suited for entrance into the global market under this system. However, pushing neoliberalism as a linear model of development policy onto the rest of the world as a fix-all solution to economic strain can be a hindrance to progress, as the policies are not tailored to the strengths and weaknesses in an individual country's economy. The introduction of neoliberalism in India simply continued the self-perpetuating cycle of poverty that was established during colonial rule, while South Korea has led itself to success and prosperity by following its own values and forging a capitalist system that is tailored to the country's context, rather than following the 'universal' neoliberalist model. The study of India and Korea's economic development speaks as evidence against the universality of neoliberalism, as India's relationship with neoliberalism has reinforced cycles of poverty, while the success of South Korea is a testament to what can be achieved when countries follow their own form of capitalism that is tailored to the socio-economic contexts of the country.

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