South Korea, Egypt and Wallerstein's World System Analysis

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South Koreans use the term 'the Miracle at the Han River' to describe their economic growth since the Korean War. In the 1960s, South Korea's Gross Domestic Product (GDP) per capita equalled that of poorer countries in Africa and Asia. Today, it's GDP at official exchange rate (OER) is US $1.151 trillion, ranking it as the world's 12th largest economy; its unemployment sits at 3.2%; and, its Human Development (HDI)[1] ranks 12th in the world (US 2013). Indeed, why wouldn't such a growth trajectory take on a supernatural descriptor? What's more, in the 1960s few could have predicted such an ascent given that the Republic of Korea (ROK) lacked an abundance of natural resources, land mass or population size – frequently used indicators to forecast power potential (Organski 1968, 340). This has led researchers to question why South Korea was able to grow at such a remarkable pace, while other potential risers were not. For instance, Egypt, with a larger abundance of profitable natural resources, a larger land mass and nearly twice the population size, has had sluggish growth during that same time. Egypt's GDP (OER) is US $255 billion; its unemployment is 12.5% or 130th in the world; and, its HDI ranking is 112th. Immanuel Wallerstein's World System Analysis[2] provides a theoretical framework to consider such growth and development inequalities. He argues an essential organizing characteristic of the modern capitalist world economy is the division of labour. Wallerstein argues systemic power structures institutionalize structural divisions in labour and amplify core-periphery relations. This essay will consider the role of strong state machineries[3] for developmental growth in such a system. Through a comparative analysis of Egypt and South Korea, this essay will demonstrate that nationalistic state intervention is necessary for economic development[4].

Wallerstein's focus is the analysis of the modern world economy, characterized by capitalism. Two basic features are of note in a capitalist world-economy: the division of labour between core, semi-periphery and periphery states and the endless accumulation of capital. The distinction between core, semi-periphery and periphery is the degree of profitability of the production process ("World" 2004, 28). Core areas feature advanced and complex economic activities; production processes are controlled by quasi-monopolies. Peripheral areas produce staple goods and export raw materials; peripheral processes here are not controlled by quasi-monopolies and thus are actually competitive. Semi-peripheral areas are economically mixed. For Wallerstein, in a system characterized by division of labour and endless accumulation of capital, the net result is unequal exchange, whereby periphery states exchange weak, competitive products for strong, quasi-monopolized core-like products ("World" 2004, 24). Thus, surplus value continually moves from the periphery to the core in order to maximize capital. This is a defining feature of the capitalist world economy.

Wallerstein contends that states can move up and down in such a hierarchical system. Certainly, South Korea is one such example. In the 1960s, South Korea was a poor, agrarian periphery economy. Today, it is close to the core as a member of the Organization for Economic Cooperation and Development. So what conditions allowed for such prosperity? List-Jensen contends a coupling of exogenous factors, such as controls on foreign investment and interaction with international markets, and endogenous factors, such as strong state machineries along with a developmental statist ideology, were necessary conditions for South Korean growth. What is implicit in this argument is the importance of exogenous and endogenous nationalistic state intervention strategies[5] for developmental growth. Almost immediately after President Park Chung-hee took leadership in 1961, South Korea began its ascent on the developmental ladder. Chung-hee's regime implemented five-year macroeconomic intervention strategies designed to capitalize on comparative advantages. In the 1960s, ROK state macroeconomic policy focused on export-oriented industrialization and expansion of key industries and infrastructure. In the 1970s, this policy shifted toward heavier and heavier industries and chemical products. In the 1980s, the state focused on social welfare, the stabilization of key sectors and the promotion of private initiatives (List-Jensen 2008, 15). In that time, exports jumped from US $40.9 million in 1962 to US $10 billion in 1977 to US $76 billion in 1993.

This economic success was in part due to the state, which was able to craft "efficient, coherent, and consistent economic policies, and to implement them effectively" (List-Jensen 2008, 12). In the 60s and 70s – ROK's development phase – the state planned and invested in new industries and sectors before deploying stabilization policies to overcome external shocks and facilitate growth (List-Jensen 2008, 15). In this sense, nationalistic economic policy favouring nascent national industries over internationally developed quasi-monopolies allowed South Korea to insulate itself from the pressures of unequal exchange. Indeed, "state planners, not the free markets determined the direction of economic activity" (List-Jensen 2008, 12). Such policies allowed South Korea to develop core-like production processes. Today, ROK is one of the top five producers of ships, automobiles, electronics and steel. Only 6.2% of its labour force is involved in agriculture accounting for just 2.7% of its GDP (US 2013). All this happened in just a generation. Yet, none of it would have been possible without nationalistic state intervention.

In Egypt, the governments of Anwar Sadat (1970-1981) and Hosni Mubarak (1981-2011) were unable to transition the Egyptian economy toward advanced industrial processes as was done in South Korea. The Egyptian economy is based on peripheral production processes. For instance, of it's labour force, 32% is based in agriculture, which makes up 14.7% of its GDP. Egypt exports some advanced products, such as refined petroleum, but much of its export industry focuses on raw materials or light industries, such as crude oil, textiles, cotton and food (US 2013). What's more, even though Egypt has proven oil reserves, it imports 157,300 barrels a day (b/d) of refined petroleum, while exporting just 21,000 b/d of petroleum and 83,000 b/d of unrefined crude oil (OPEC 2012, 54-57). Thus, this exchange is unequal considering refined petroleum sells at a higher price than crude oil in international markets. Wallerstein argues refining raw materials and similar advanced production processes are controlled by core economies. In this sense, the US, Canada and Western Europe control 39.2% of the world's refinery capacity (OPEC 2012, 38). As such, even though the raw materials exist in periphery countries, such as Egypt, the advanced industrial capacity controlled at the core ensures surplus value trickles back to those in the core.

In Egypt, strong state machineries comparable to those of South Korea are absent. The Mubarak regime was characterized by corruption and collusion with foreign businesses for personal gain at the expense of national growth (Inman 2011). Amaney Jamal, a political science professor at Princeton University notes, "there was a lot of corruption in this regime and stifling of public resources for personal gain" (Inman 2011). Now, while such collusion was certainly not absent in South Korea – for instance in government relations with the Korean business conglomerates, the Cheobols – a developmental statist paradigm[6] was still an essential feature of government-business relations (List-Jensen 2008, 13). For instance, in South Korea, during its developmental phase, state macroeconomic policy favoured national businesses wherein economic benefits remained within the country's borders. In Egypt, the Mubarak family and elites within the state accumulated wealth through business partnerships with foreign investors and companies (Inman 2011). Thus, such benefits were transnational in nature, allowing for cross-border gains, or remained within the Egyptian upper socioeconomic strata. Egyptian macroeconomic policy under Mubarak devastated the economy and hindered growth (Hickel 2012). For example, while Gulf states typically require foreigners to give a local business partner a 51% stake in start-up ventures, Egypt asked for only 20% – and, much of that went to elite politicians or allies in the military (Inman 2011). South Korea on the other hand was able to implement strong nationalistic policies free from un-nationalistic influences. During the South Korean developmental phase, the state imposed strict controls on flows of investment funds to strategically pursue national economic priorities conducive to development. In fact, financial control was one of Korean state's strongest instruments to guide development (List-Jensen 2008, 15). By exerting control over credit, the state was able to guide sectoral mobility and promote heavy and chemical industries. As such, South Korea incentivized semi or core like production processes. In 1962, 71% of South Korean industry was light; in 1990, this figure dropped to 40.7% while heavy industries increased to 59.3% (List-Jensen 2008, 13). Egypt has not been successful in this respect and thus is still mired in a developmental phase. As a result, in a hierarchical capitalist world economy, Egypt remains on the periphery.

List-Jensen attributes South Korea's economic efficacy to the authoritarian regimes that guided it through its developmental phase and insulated the state from non-state pressures incongruent with national economic priorities (List-Jensen 2008, 15). The Mubarak administration, as outlined, was not insulated from foreign pressure. In fact, the US-Egyptian dyad exemplifies Wallerstein's description of core-periphery relations: "strong states relate to weak states by pressuring them to keep their frontiers open to those flows of factors of production that are useful and profitable to firms located in the strong states" ("World" 2004, 55). One such way the US exerts such pressure is through the provision of aid. After Mubarak took power in 1981, the US began providing more than $800 million per year in economic aid to promote economic reforms. Hickel notes the purpose of this aid was to "pry open the Egyptian economy for the benefit of American and other foreign corporations with little regard for the well-being of the Egyptian people" (2012). Consequently, Egypt eliminated subsidies and tariffs undermining local businesses and increasing unemployment, removed labour standards, violently repressed unions, privatized public services, and levied the tax burden to the poor. These actions weakened the economy and highlight the weakness of the Mubarak regime. Wallerstein argues that where a difference in the strength of the state-machineries exists, "we get the operation of 'unequal exchange' which is enforced by core states on peripheral areas" ("The Rise" 1974, 401). As such, in this sense, strength differentials are a pre-requisite to unequal exchange. Thus, for a state to succeed, it must possess strong state mechanisms driven by nationalistic priorities. South Korea, in this sense, maintained an economic trajectory congruent with national policies beneficial to the state. Egypt did not.

For Wallerstein, a capitalist world economy is a zero-sum game: a free market does not provide protection for infant firms or safeguard national economies from predatory core quasi-monopolies. He suggests, "the strength of the state-machinery in core states is a function of the weakness of other state-machineries" ("The Rise" 1974, 403). As such, for periphery states, nationalistic state intervention, though insufficient, is necessary for developmental growth.

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[1] HDI measures development by combining indicators of life expectancy, educational attainment and income into a human development index.

[2]

World System Analysis notes that the capitalist world-economy is built on a hierarchy of core areas, peripheral areas and semi-peripheral areas. World economies are tied together economically in a single division of labour (Jackson and Sorenson 2010, 194).

[3] Strong state machineries allow states to carry out decisions free from external influence. Wallerstein defines the strength of states as the ability to get legal decisions actually carried out ("World" 2004, 53). This essay adds to this definition the extent to which the state is free from external, or foreign, influence and operates for the benefit of the nation.

[4] List-Jensen defines economic development as the "combined process of capital accumulation, rising per capita incomes, the increasing of skills in the population, the adoption of new technological styles, and other related social and economic changes (2008, 2).

[5] Nationalistic state intervention strategies promote national industries and the well-being of the nation at the expense of foreign interests.

[6] List-Jensen characterizes a development statist paradigm as the "state's capacity and efficient role for macroeconomic intervention and mobilization of resources, its insulation from social pressures, policy consistency acquired from imposed political stability, and infusion of developmental ideology" (List-Jensen 2008, 12).

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Written by: Terence Fernandes
Written at: Freie Universität Berlin
Written for: Dr. Nagar
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