Late Industrialization processes in the post-war era.

The cases of South Korea and Egypt (1950-1997)

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1 Introduction

The 20th century has proved to be a challenge for countries in the Global South to develop their economies. The post-colonial period had been hailed as an opportunity to undo the scars of imperialism and to usher in an age of renewed development. However, anno 2020, the wealth inequality between the North and the South has largely remained. Various challenges still plague many countries. Not only is it hard to catch up with the levels of industrialization of the North, but these countries have dealt with other interfering issues like corruption, unequal trade relations and the consequences of environmental deterioration.

However, for a cluster of countries the period between 1950 and 1997 had completely industrialized and modernized their economies and increased the livelihoods of their citizens to comparable standards as found among the world's most developed. These handful of countries which managed to industrialize rapidly and to move from the "South" to the "North", are sometimes referred to as Newly Industrialized Countries (NICs) and they are almost exclusively found in East Asia. The most successful of these countries are the Asian tigers. Four countries categorized by the speed of their growth and their very high GDP per capita, and which keep displaying impressive growth numbers in the 21st century. Despite a lack of natural resources, these countries have managed to move along the production chains in just a few decades. The largest of these Four Asian Tigers, is the Republic of Korea (ROK). It has extensively been used as an example of post-World Wars development. It transformed from a war-torn, isolated and backwards economy in 1960 to a global hub of high-tech manufacturing.[1] South Korea has been often categorized as the prime example of late development, and it continues to be hailed as an example for the Global South. Even the World Bank has made this clear in its famous 1993 report titled ''the East Asian Miracle: Economic growth and public policy''. The conclusion of this report is the following: ''what can other developing economies learn from the East Asian miracle? While there is no recipe for success, there are some positive lessons: keep the macroeconomy stable; focus on early education; do

[1] Kim, K. S. (1995). The Korean Miracle (1962–80) Revisited: Myths and Realities in Strategies and Development.

not neglect agriculture; use banks to build a sound financial system; be open to foreign ideas and technology; and let relative prices reflect economic scarcities.''[2] But despite these rather specific explanations on how the economies in the region had achieved rapid industrialization, such methods of growth have proven to be uneasy to implement elsewhere. It can even be argued that Egypt under the guidance of President Nasser (1952-1970) had a very similar strategy, or at least tried to have.

The Arab Republic of Egypt had a very similar level of development in 1950. But half a century later the country is in a much poorer state. Egypt did have long periods of 5% real GDP growth through the later part of the 20th century. At the same time however, it scores incredibly low on social factors such as child malnourishment, as well as inequality and absolute poverty. This process has even been described as de-development by scholars.[3] Why did South-Korea manage to move to the North while Egypt de-developed? Egypt and South Korea shared similar GDP numbers in 1950. Both were middle sized countries with very similar population sizes (20 million), both countries had similar life expectancy (35 and 38 years respectively)[4], high fertility rates (5.3 & 6.7 children per woman). Moreover, both were heavily involved in symmetric warfare, even though South Korea's last large participation in a symmetric armed conflict was 1975 and Egypt's was in 1973. Both were recipients of large American aid.[5] Both have very limited surface area suitable for agriculture and relatively speaking lack natural resources. Both countries were in close physical proximity to economies undergoing rapid re-industrialization booms. Both nations adopted import-subsidiarization industrialization (ISI) strategies. And both nations were governed by authoritarian dictators.

Many scholars across various fields have tried to explain the economic boom in Korea. And others have tried to explain the lack of growth in Egypt. This paper will briefly touch upon these factors, which have brought about the recent growth boom. Explaining economic growth is extremely complex, not only because the range of materials available is substantial but also because the scope of interpretation is wide-ranging. Different schools have very

[2] World Bank. Policy Research Department, Birdsall, N., & Page, J. (1993). East Asian miracle: Economic growth and public policy.

[3] Kadri, A. (2014). Arab development denied: Dynamics of accumulation by wars of encroachment

[4] Our World in Data.

different methods, explanations and vocabulary. Previously in the study of economics, scholars have focused on pure economic arguments in order to explain development or the lack thereof. However, more recently, economists have also started to point at geopolitical reasons as a factor for economic growth. These global political economists have sought to bridge the constructed divide between politics and economics. In line with this tradition, the present paper will try to use the arguments of these scholars and implement them on two cases: Egypt and South-Korea. This paper will try to examine the reasons for this rapid late industrialization. It will exclusively focus on these resource-poor nations. It will be a comparative study between two central countries within two different regions, Egypt and South Korea, it hopes to provide insights for other countries struggling with economic development. For this thesis, economic growth will be defined in nominal GDP growth. Although these two cases are different from any other, I hope that the conclusions of this research for Egypt will be able to provide qualitative knowledge on the other resource-poor countries in the Arab World.

Research Question: What explains the different industrialization outcomes in Egypt and South-Korea?

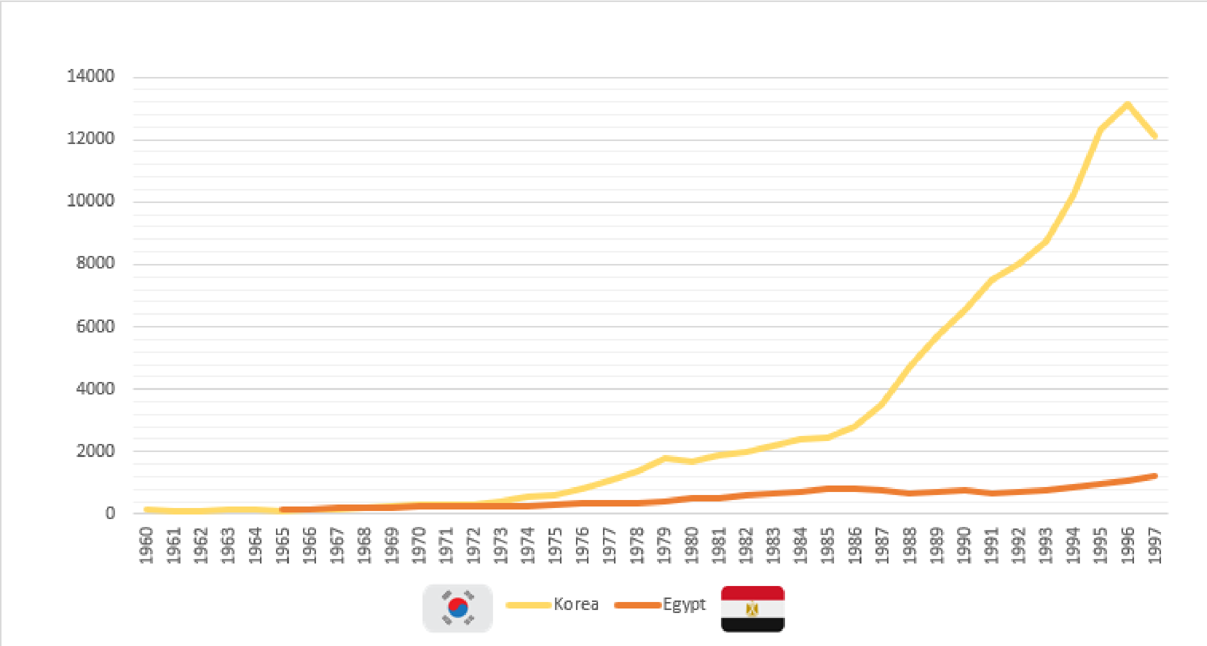

Figure I: GDP per Capita in Egypt and South Korea (1960-1997). [6]

[6] World Bank Open Data.

2 Research Design and Methodology

In this chapter I will talk about the methodological approach, the case selection, the timeframe and finally the data to be used for the present research paper. First, I will start with the methodological approach. In order to answer the research question, I will use a mixed methodological approach consisting of qualitative in-case analysis. As King et al. have pointed out, in order to identify the causal mechanism in such a case we need to conduct causal inference.[7] Causal inference seeks to understand the effects of a/some variable(s) on another variable(s). In this case, I will compare two cases in order to determine which variables were different between them. Then I will inductively try to seek for the reason. The initial observation is that Korea and Egypt had different late industrialization outcomes. The units in this study are the countries of Egypt and South Korea. However, I will cover both countries in two separate phases. This is as a consequence of a shift in economic strategy in the 1970s, when both countries liberalized their economies. For Egypt, I will discuss Nasserite Egypt (until 1973) and Post-infitah Egypt (1973-1997). For the case of South Korea, I will first look at the Developmental State Period (until 1975) and after that I will look into the liberalization process (1975-1997). In order to determine what the possible causes were for different outcomes in these initially similar economies. I will use a theory-testing process tracing. This theory-centric approach tries to see if a causal mechanism is present and if it functions as theorized[8] and can be regarded as a proper fit for the aim of the research.

Periods
Nasserite Egypt
Post-infitah Egypt
Developmental State in South Korea
Liberalization in South Korea

[7] King, G., Keohane, R., & Verba, S. (1994). Designing Social Inquiry: Scientific Inference in Qualitative Research. Page 86.

[8] Beach, D., & Pedersen, R. (2013). Process-tracing methods foundations and guidelines. Page 12.

The case-study selection is a logical consequence of the economic data and of the literature. I will elaborate on this by looking into the typology of the economies in the Arab World as described in the 2015 edition of the ''A Political Economy of the World''- textbook.[9] Firstly it is very important to isolate the most similar cases, therefor I shall give a short description of the economies in the AW. A first group of countries are the resource rich- labour poor countries (RRLP). The first distinction to be made is the difference between natural resource-rich and natural resource-poor economies. Having access to resources like petroleum allows certain governments to adopt rentierism as a method of development. Several of these petroleum economies managed to develop rapidly, in terms of economic growth, but the catalysator of economic growth was almost exclusively due to the export of those natural resources. The Arab World is inseparably connected to the petroleum industry. The abundance of natural resources in these countries has shaped the fundament of these economies. These RRLP have benefitted massively from these materials (petroleum, natural gas). These countries are also scarce in labour.[10] The Arab world is home to some of the world's richest nations in terms of GDP per capita. The State of Qatar scored among the world's richest nations anno 2018.[11] This development has largely contributed to the export of Liquified Natural Gas(LNG), which remains the country's biggest export commodity.[12] Other countries in this category are found in Qatar's direct neighbourhood, such as Kuwait, Oman, the United Arab Emirates and the epitome: the Kingdom of Saudi Arabia. All of them have a higher nominal GDP per capita than 15.000 USD.[13] This core zone of the global economy has benefited from the extensive inflow of petrodollars.[14] These nations are unlike South Korea, both managed to increase their global economic footprint, but the RRLP pursued a strategy of

[9] Cammett, Diwan, Richards, Waterbury, Diwan, Isaac, Richards, Alan, & Waterbury, John. (2015). A political economy of the Middle East (Fourth ed.). Page 81.

[10] Richards, A., Waterbury, J., Cammett, M., & Diwan, I. (2013). A political economy of the Middle East. Page 75.

[11] World Bank Open Data.

[12]Simoes, AJG et Hidalgo CA. (2011). The Economic Complexity Observatory: An Analytical Tool for Understanding the Dynamics of Economic Development.

[13] World Bank Open Data.

[14] Hanieh, A. (2015). Capitalism and class in the Gulf Arab states. Page 54.

natural resource export, while the East Asian Tigers lacked natural resources.

A second category of countries are resource rich- labour abundant (RRLA). These countries were unable to benefited from these natural resources and, often harmed by internal and regional conflict, they remained relatively underdeveloped. Most of the time, the lack of growth in these countries was partly caused by geopolitics. The best examples are Iraq, Algeria and most recently Libya. Although Iran lies outside the Arab World it displays features closely related to the RRLA-economies.

A third group of nations, similar to the Asian Tigers, do not possess significant amounts of natural resources. Secondly, similar to the East Asian tigers they also had relatively high populations. But - unlike the four East Asian NICs - it has not been able to spur a lot of economic growth. Although these nations have a lot of potential – such as the proximity to big economic markets, high levels of tourism, labour abundance, and an educated population – they still battle with corruption and poverty. The young republics of Egypt, Yemen, Tunisia and Mauritania fall into this group together with the two only resource-poor monarchies: Morocco and Hashemite Jordan. These countries are the most similar to the East Asian tiger. Egypt and Korea had the most similar GDP per capita in 1960. But if we look at both Egypt's and Korea's population size and other demographical statistics in the 1960, the similarity between are strikingly similar. To conclude the Republic of Korea was similar to Egypt in terms of GDP, demographics and it too was a RPLA nation. If we look at figure II, we can see a strange lack of RPLA high-GDP nations.

Furthermore, these two cases do have some additional reason why they are especially workable. Firstly, Egypt lies not only in the centre of the Arab world geographically, but more importantly also culturally and socio-politically. Its massive population, which is the biggest in the Arab world, gives it the weight in order to position itself as the leader of the Arab world. Although the country has lost influence in the region due to a rising Saudi Arabia, it remains an example for other countries in the region. Secondly, because of their size, there exists a big number of sources and literature on these countries, which makes conducting research easier. The data I will use for this paper are further deepened in the last section of this chapter. Finally, Egypt has shifted its political alignment and economic strategies immensely. Egypt turned from a ''Socialist republic'' backed by the Soviet Union into a ''free market'' ally of Washington. This change is crucial for this paper, as it can analyse the effects of their different geopolitical alignments on their late industrialization processes. South-Korea on the other hand was founded as an US ally and continues to remain a firm one. Finally, this variety between and within the two cases will ensure that I will not be picking cases based on the fact that they could beforehand prove the hypotheses (selection bias). [15] [16]

I will be analysing the research question from 1956 until 1997 (the Asian Financial Crisis). The first period focuses on the establishment of the Arab socialist republics and the second period is considered in order to understand the opened-up Egyptian economy of the 80s, 90s and early 2000s. As will be elaborated on, in Korea a similar shift has occurred. From state-intervention to a more open market. Moreover, it is very hard to already comprehend if current governments manage to acquire substantial economic growth numbers.

I will be using a variety of sources in order to give substantiation to my explanation building. The economic growth numbers are retrievable from various sources: The World Economy: Historical Statistics, [17] The World Bank Open Data,[18] and the IMF Data Mapper.[19] For the data on the time period I will be using multiple primary sources. For the case studies, it is of most importance to use documents in order to corroborate and augment evidence from other sources.[20] I will look at government policies of the concerned cases. Finally, I will also be looking at speeches of the statesmen in question. In the case of Nasserite Egypt, for example, speeches, handwritten papers, decrees and the notes of the Central Committee of for Socialist Unions Sessions are all easily accessible. All these sources combined will be part of my case study evidence. It is essential for this paper to comprehend the *Infitah* as much as possible. Thus, I will also be looking at the policy papers, speeches and announcements from this period.

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[15] King, G., Keohane, R., & Verba, S. (1994). Designing Social Inquiry: Scientific Inference in Qualitative Research. Page 135.

[16] Yin, R. (2009). Case study research: Design and methods. Page 72.

[17] Maddison, Angus. (2003). The World Economy: Historical Statistics. Development Centre Studies. Paris: OECD Publishing.

[18] World Bank Open Data. https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG

[19] International Monetary Fund (IMF) Data Mapper.

[20] Yin, R. (2009). Case study research: Design and methods (4th ed., Applied social research methods series; vol. 5 851144993). Page 103.

Korean economic growth was pursued in line with the several development strategies enacted by the government. Therefor it is extremely important to have an in-depth understanding of this phenomenon. Therefor this will be a central theme in the literature review.

	Resource Abundant	Resource Poor
Labour Poor	Qatar (69,027)[21] UAE (43,005) Kuwait (34,244) Bahrain (24,051) Saudi Arabia (23,219) Oman (16,419)	
Labour Abundant	Libya (7,235) Iraq (5,878) Algeria (4,279)	Singapore (64,582) Hong Kong (48,717) South-Korea (31,363) Lebanon (8,270) Jordan (4,248) Tunisia (3,447) Morocco (3,238) Egypt (2,549)

Figure II: Typology of economies in the Arab World and East Asia

[21] World Bank Open Data. Nominal GDP (The global average is 11,297 USD)

3 Literature review

3.1 Introduction to Late Industrialization

First, I will determine what Late Industrialization is. Late Industrialization is a concept in International Economics which is crucial for understanding development and the lack thereof. Late Industrialization is by definition in contrast to the first waves of Industrialization, which first occurred in the United Kingdom and soon spread to other countries in the Western World. A key aspect of late industrialization processes is a move away from agricultural output and pursuit.[22] Complex collection of cumulative forces transform a society from a rural agricultural one to an industrialized urban one. The first waves of industrialization were categorized by invention and innovation.

However, industrialization in the post- World War period era has other points of department and other requirements to deal with. For example, during the economic development of Japan, technology was much less advanced and easier to copy.[23] Amsden uses a similar argument.[24] Late industrialization is not associated with invention and innovation,[25] but rather it consists in changing their production process and the adoption of already invented technology. In other words: the world of late industrialization is a matter of adaptation or catching up. This idea largely falls in line with Gerschenkron's insights on *economic backwardness,* where growth is not seen as linear, but takes form in big leaps of adaptation.[26] Thus, in this context, a late industrializer should not pursue its *comparative advantage*, but it needs to try to make that big loop happen. Technology transfer plays a huge role in late industrialization. This is in sharp contrast with Rostow's naïve image of the

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[22]Majumdar, S. (2012). Asian late industrialization. In *India's Late, Late Industrial Revolution: Democratizing Entrepreneurship*. Page 126.

[23] Amsden, A. (2007). Escape from empire : The developing world's journey through heaven and hell. Page 77.

[24] Yoshihara Kunio. (1988). The rise of ersatz capitalism in South-East Asia. Page 114.

[25]Ibid,. Page 126.

[26]Selwyn, B. (2011). Trotsky, Gerschenkron and the political economy of late capitalist development. Economy and Society. Page 425.

developmental stages (traditional, pre take-off, take-off, drive to maturity, high-mass consumption), wherein every country will slowly develop into the next category in a linear manner.

This debate on what late industrialization entails is less polarized. Therefore, in this paper, *late industrialization* is defined as "industrialization in the post-World War context". As Amsden noted these countries needed to focus more on technology-transfer instead of technology innovation.[27] Scholars seem to disagree more on how late industrialization could occur, which will be covered in the next part.

3.2 Theories of Late Industrialization

In this chapter I briefly touch upon the various academic theories which scholars have used in order to explain late development. In order to understand late industrialization, for which the Korean miracle is often used as an example, we will examine this period of economic growth through the lenses of various schools of economic thought. The schools widely disagree on how South Korea's economy boomed in the 1960s. Firstly, neoliberals focus on the importance of the individual to operate within an institutional framework, protected by the government's monopoly of power, in order to acquire wealth.[28] Neoliberal economists have argued that South Korea and the other Tigers developed their economies as a consequence of free market economy and its interconnectedness to the global market. By focusing on its comparative advantages, the country has industrialized and progressed. Development could be reached by the means of different policies such as opening markets, privatization, deregulation, laissez-faire and protection of private properties. These policies have been associated with the Washington Consensus.[29] In this framework the state should not play a part in actively pursuing economic development,[30] but it should be viewed in line

[27] Amsden, A. (2007). Escape from empire : The developing world's journey through heaven and hell.

[28] Harvey, D. (2005). A brief history of neoliberalism. Page 64.

[29] Kanbur, Ravi. (2009). The Co-Evolution of the Washington Consensus and The Economic Development Discourse. Page 35.

[30] Frieden, J. (2012). The Modern Capitalist World Economy: A Historical Overview. Page 33.

with Ronald Reagan's famous words: ''government is not the solution to our problem, government is the problem". In the case of South Korea, neoclassical economists would argue that the state simply pursued some hand-waving in order to influence market mechanisms.[31] However after analysing the case of the Korean Miracle it seems very evident that the ROK government did play a big conductor role in its economic development. Its large industry policy[32], its aggressive protection of its domestic producers[33] and suppression of trade unions are all example of this. In fact, a whole school of thought focuses on this state-led development.

Thurbon et Weiss explain late industrialization as being fuelled by governments. In this model, the state is seen as a solution instead of a problem.[34] One scholar which would agree with Thurbon and Weiss is Ha-Joon Chang. He also seriously doubts the effectiveness of overreliance on the market in general and the Washington Consensus in specific.[35] Statists have emphasized the role of the governments in South Korea's growth in this period. More specifically, the model where the state takes an active role, known as the Developmental State (DS). The theory was first coined by the American thinker Chalmers Johnson.[36] The four features associated with this theory are: "first, 'the existence of a small, inexpensive, but elite state bureaucracy staffed by the best managerial talent available'; second, 'a political system in which the bureaucracy is given sufficient scope to take initiative and operate effectively'; third, 'the perfection of market-conforming methods of state intervention in the economy'; and fourth, 'a pilot organization like MITI' that controls industrial policy through its influence over planning, the energy sector, domestic production, international trade, finance and government funds."[37] Another major goal of developing countries is to protect their infant

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[31] Woo-Cumings, Meredith. (1994). The 'New Authoritarianism' in East Asia. Page 414.

[32] Capps, Gavin., and Prodromos. Panayiotopoulos. World Development an Introduction. Page 136.

[33] Luttwak, Edward N. (1999). "Theory and Practice of Geo-Economics" Page 129.

[34] Thurbon, Elizabeth and Linda Weiss. (2016) 'The Developmental state in the late twentieth century'. Page 637.

[35]Chang, Ha-Joon. *Kicking Away the Ladder: Development Strategy in Historical Perspective*. (2002) Page 2.

[36] Stubbs, Richard. "What Ever Happened to the East Asian Developmental State? The Unfolding Debate." (2009) Page 2.

[37]Ibid., Page 2.

industries, as companies in their early phase do not have the tools to protect themselves from well-established foreign companies. This strategy has been argued for as early as the German thinker Friedrich List.[38] To summarize, according to the DS model, the economic rise in late developed economies is based on state-led industrialization. It is undeniable that the shape of all markets is determined by public choices.[39] This model seems to be the most effective strategy in order to achieve late industrialization. The World Bank has also concluded that government intervention and industrial policy were part of Korea's development story. ''Although there are no recent estimates of Korean rates of effective protection, there is considerable anecdotal information suggesting that the government afforded these sectors relatively high protection''.[40]

Critical political economists tend to have a different view on the reasons for take-off. Their view of the world economy is radically different from the other perspectives and it is heavily influenced by Marx' seminal analysis of capitalist development.[41] In a Marxist point of view, neoliberalists are simply justifying their own wealth on the basis of individual liberty and freedom. This is happening while the bourgeoisie is exploiting working classes in order to sell their labour for profit. In a Marxist perspective, Friedrich List and other statists do not want their own workers to be exploited by foreign capitalists, as they themselves should have the monopoly over exploiting their own labouring classes. Thus, in contrast to the statist, Marxists see the state as an apparatus used by the capitalist class. They prefer more international solutions to developmental problems. Marx has a completely different view of development, one that focuses more on human flourishing and collective abilities.[42] These ideas are also applicable in international relations. According to Amin the world in divided in ''centres'' and ''peripheries''.[43] As a consequence of the power relations of the global political order, the

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[38]Selwyn, B. (2014). The global development crisis. Page 31.

[39] Schmidt, V. (2009). Putting the Political Back into Political Economy by Bringing the State Back in Yet Again. Page 541.

[40] World Bank. Policy Research Department, Birdsall, N., & Page, J. (1993). East Asian miracle: Economic growth and public policy. Page 308.

[41] Hudson, R. (2012) Critical Political Economy and Material Transformation. Page 364.

[42] Selwyn, B. (2014). The global development crisis. Page 54.

[43] Amin, S. (2013). Three essays on Marx's value theory. Page XX

centers are exploiting the peripheries. According to this dependency theory the poorer countries pay ‘’imperial rent’’ to the richer countries.[44] Kvangraven identifies further dependency relations such as an increase of financial global integration and an uneven and unequal ecological climate change exchange perspective.[45]

3.3 On Geopolitics and development

In accordance with critical political economy more economists have tried to look for reasons behind development which transcends “pure economics”. As only looking at economic variables is becoming less helpful in order to understand complex multi-disciplinary cases. These scholars look at other factors behind “policy-oriented” reasons for development. Geopolitical and geoeconomic factors for example could significantly affect economic outcomes, regardless of which policies the government utilizes. As argued by Luttwak, if states use rules and regulation in order influence commercial outcomes and vice versa it ‘’is no longer plain vanilla economics that is going on, but rather Geo-economics.’’[46] The British scholar Dodds argues that instead of creating a world system based on free and fair trade, powerful states frequently engage in trade politics in order to promote their own unilateral geo-economic priorities.[47] He paints a picture of the world as constructed system of North-South ‘’apartheid’’. The wellbeing of the Global South is not only determined by pure economics, but also by geopolitics. ‘’The future of regions such as Africa, Asia and the Pacific in any new world order will depend upon the interaction of states co-existing within a globalized system of financial flows, social actors, militarization, markets, international organizations and unwanted ideas and threats. The position of countries in Sub-Saharan Africa such as Malawi and Uganda is all the more precarious as it becomes evident that not even so-called Great

[44] Ibid, .

[45] Kvangraven, I.H. (2020), Beyond the Stereotype: Restating the Relevance of the Dependency Research Programme. Development and Change. Page 26.

[46] Luttwak, Edward N. (1999). "Theory and Practice of Geo-Economics" Page 127.

[47] Dodds, K. (2013). Global geopolitics: A critical introduction. Page 6.

Powers such as the USA can shape the international system to suit exclusively American needs.''[48] The American have provided economic support for countries it deemed important geopolitically.[49] For example some Cold War satellite state countries have benefited from the American hegemony. More concretely, this came in the form of easy access to US markets, technology sharing and military protection. Ikenberry points out that the American hegemony has been linked to a security umbrella and that it has been associated with ''unprecedented economic growth''.[50]

Finally, it is also worth mentioning that there are economists who do not agree with the idea that there has been some exceptional growth in East Asia. According to Krugman, these "paper" Tigers simply caught up with the West, instead of having a unique model of development.[51] However, a question remains: Why did these countries catch up and others did not?

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3.4 Late development in the MENA-region

The general analyses on late development fall in-line with the particular case of the Middle East. Firstly, researchers have analysed the lack of growth in this region in light of the lack of connectivity to world markets, free trade and liberalization. Countries having not opened their markets to the capitalistic world market is the main argument which scholars associated with the Washington Consensus would point out to. However, if we look at the actual numbers, we can identify some countries which have adopted neoliberal policies, but they have not seen favourable results. The most famous case is Egypt after the Sadat's *infitah*, which will be a subject of this research.

However, others have disagreed with this neoliberal bias on late development in this region.[52] In this understanding, neoliberalism is a preventer of growth instead of a provider.

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[48] Dodds, K. (2013). Global geopolitics: A critical introduction. Page 52.

[49] Ibid, Page 53.

[50] Ikenberry, G. (2004). American hegemony and East Asian order. Page 365.

[51] Krugman, Paul. (1994). The Myth of Asia's Miracle. Page 11.

[52] Bush, Rey. (2015) Framing poverty and neoliberalism: The Middle East and North Africa. Page 1.

The ''cozy alliance'' of the economic and political elite has formed a private oligopoly according to Boone et Henry.[53] This has not improved the chances of the middle class to enter into the market but made it even harder. Hanieh argues that it has led to a more wealth inequality, poverty and authoritarianism.[54] Such claim falls in line with the wider economic critic on neoliberalism, which is gaining popularity among scholars.

Besides economic policies, there is a group of scholars of critical political economy which look at geopolitics as a hindering factor for economic growth in the region. They argue that not merely economic factors, but primarily the geopolitical factors driving them have led to poor development. In the word of Kadri '' The crisis of the Arab World (AW) is not one that can be merely quantified with economic measures. It is a deeply rooted social crisis that is continually fed and reproduced by social dislocation, artificially stimulated religious and ethnic conflict, and a vortex of international powers emboldened by US military excursions and Israel's superior military capabilities.''[55] It is no secret that war and rivalries affect economic prosperity. Lu et Thies concluded this in their 2013 research when they used data from 18 countries and a large number of varieties.[56] One big example is the Arab-Israeli conflict, which has affected the social, economic and political development in the Middle East.[57] This is not too far-fetched as this conflict cost human capacity, led to huge amounts of refugees being an economic burden on receiving countries and caused a lack of FDI. It is clear that war prevents economic growth. However, Fischer et al. do not point out that other regions in the world also faced huge wars in the Cold War-context (Southeast Asia and East Asia). Egypt has not had a war with Israel after the Camp David accords, and both Morocco and Jordan have not seen military conflict on their territory after 1967.

In order to give a well-rounded overview, some scholars have also emphasized the role

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[53] Boone, C., & Henry, C. (2004). Neoliberalism in the Middle East and Africa: Divergent banking reform trajectories, 1980s to 2000. Page 385.

[54] Hanieh, A. (2015). Mapping the political economy of neoliberalism in the Arab world. Page 297.

[55]Kadri, A. (2014). Arab development denied: Dynamics of accumulation by wars of encroachment. Page 22.

[56] Lu, L., & Thies, C. (2013). War, Rivalry, and State Building in the Middle East.

[57] Fischer, S., Rodrik, D., & Tuma, E. (1993). The Economics of Middle East peace: Views from the region. Page 220.

of religion and ideology in the region as a preventer of development.[58] According to Tuma, as long as the institutions of private property and the accumulation of wealth and inheritance remain the same, poverty rates will not reduce. This cultural reasoning for the lack of economic growth has been pointed out by others as well. Some scholars have even linked economic development to religion.[59] Protestant and Confucian countries are sometimes perceived to be better suited for economic production in contrast to Catholic, Hindu and Muslim countries. Although this conclusion might correlate to some cases, there are too many examples which prove to counter this argument, as there are developed and developing countries in every culture group.

I hope that I have shown that there are a lot of factors in the literature which explain development in general and in the particular regions of interest. It is very interesting to see how scholars across the field differ massively on the problems deterring economic development in this region. From the literature it seems that an overreliance on the market has been a major problem for resource-poor Arab economies. At the same time, a more state-led economy also proved incapable of starting a tack-off. There must be other reasons explaining the economic rise of Korea and the lack thereof in the Middle East.

3.5 Late Industrialization in Egypt

The economies of the Middle East have their origin in the Cold War context. One of the most known economic archetypes in this region was the ''socialist republic''.[60] This stood in opposition to the monarchies, which tried to hold on to their powers and privileges. It stood for government interventionism in order to industrialize the country for the benefit of ''the people''. Charismatic leaders would end the long period of feudal lords possessing huge plots of lands by enacting land reforms. Secularism, nationalization and authoritarianism were the norm under these governments. In 1952, Egypt was transformed into a republic by the free officers. Gamel Abdel Nasser soon consolidated power and finished the process of the

[58] Tuma, E. (1980). The Rich and the Poor in the Middle East. Page 433.

[59] Mccleary, R. (2008). Religion and economic development.

[60] Richards, A., Waterbury, J., Cammett, M., & Diwan, I. (2013). A political economy of the Middle East. Page 291.

transition to a ''Socialist Republic''.[61] Richards et al. suggests that this form of government continues to exist in the post-Nasser era.[62] However, other scholars like Waterbury see the 1979 reforms of Sadat as a break from this model.[63] It must be noted that term socialism in casu does not necessarily refer to comprehensive ideological system, or as Ayubi puts it : '' It is not sound to call a system socialist simply because its leaders happen, at a particular political juncture, to raise socialist banners and to use socialist terminology''.[64]

Ayubi's view of these governments as ''populist-corporatist regimes'' is very similar to Diwan et al.'s. They point to the effects of cronyism on economic growth, or more precisely the lack thereof. Their paper has linked the existence of large PCFs (politically connected firms) to large economic and social problems in Egypt.[65] Although their arguments are extremely compelling, they do not explain why PCFs (namely the Chaebol and the Keiretsu) have not distorted economic growth in East Asia.

At a first glance, the Arab Socialist Republics have a lot in common with the Developmental States. Both governments employed authoritarianism in order to pursue an ISI-led planned economic growth. However, they did differ in their geopolitical alignment. The Arab Socialist Republics were backed by the Soviet Union, and opposition against neo-colonialism and Zionism was a cornerstone in their political ideology.[66] However, most successful Developmental States are US allies. The effects of geopolitics on economic growth might be even greater than previously assumed. The goal of this paper is therefore to shed further light on this knowledge gap and to investigate this problem.

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[61]Ibid., Page 293.

[62]Ibid., Page 291.

[63] Waterbury, J. (1983). The Egypt of Nasser and Sadat : The Political Economy of Two Regimes. Chapter One, Page 10.

[64] Ayubi, N. (1992). Withered socialism or whether socialism? The radical Arab states as populist-corporatist regimes. Page 92.

[65] Diwan, I., Malik, M., & Atiyas, I. (2019). Crony capitalism in the Middle East : Business and politics from liberalization to the Arab Spring. Page 87.

[66] Ibid., Page 293.

4 Geopolitics & Geoeconomics

4.1 Definition of Geopolitics and Geoeconomics

Geopolitics remains an intellectually contested field.[67] While there is no general definition of geopolitics, it is at its broadest understood as “the impact of natural phenomena on men”.[68] More precisely speaking, it focuses on the effects of geography on politics. A more recent perspective is Critical Geopolitics. This discipline brings analysis from social studies, humanities, cultural studies and, most importantly, discourse analysis into this field.[69] Policymakers, media and other forces of power construct ideas over certain territories in order to make a certain narrative. These ideas could reinforce foreign policy and the public opinion about a certain “place”. The Korean peninsula, for example, is evidently socially constructed as a result of a battle of ideas. But arguably every place in the world has been socially constructed. This is relevant for this piece as it helps us explain how governments can help foster economic development in certain territories if they are deemed suited enough.

Geoeconomics has been defined differently by various scholars. One simple definition is given by Baru: geoeconomics is the ‘’geographical consequences of economic phenomena’’.[70] In this working definition economics is NOT the objective, but the means. Thus, in this case, geoeconomics is a branch of geopolitics, one of the different methods which states can use in order to achieve geopolitical objectives. This entails that states can use their economic power in order to achieve strategic goals. The Marshall Plan and the Belt and Road Initiative are examples of geoeconomics. This ‘’war by other means’’ is becoming more prominent in the post-war era.[71] According to Luttwak, a state-actor has various weapons in its geoeconomic arsenal to gain power. Some of these weapons include: subsidized product

[67] Dodds, K. (2013). Global geopolitics: A critical introduction. Page 27.

[68] Kristof, L. (1960). The origins and evolution of geopolitics. Journal of Conflict Resolution. Page 17.

[69] Ó Tuathail, Dalby, and Dalby, Simon. (1998). Rethinking Geopolitics.

[70] Baru, S., (2012). Geo-economics and Strategy. Page 47.

[71] Luttwak, Edward N. (1999). "Theory and Practice of Geo-Economics" Page 128.

development, state-supported market penetration, tariffs and quotas to serve world politics and sanctions.[72] In this chapter I will identify and analyse the weapons of geoeconomics which have affected the late industrialization process of the two case-studies.

4.2 Economic development correlates to geopolitical alignment

As discussed in the literature review, from a classical economic point-of-view the Nasserite Socialist republic did not differ extensively from General Park's South Korea. Both persuaded ISI-strategy instead of export-orientated, both had very strong industrial policies, Korea had its *chaebol* orchestrating major ''private'' enterprises and Egypt had its crony capitalists. Both countries were highly militarized authoritarian states, where various human rights were deterred and where there was no place for independent labour unions. It can be even argued that Stubbs' definition of a Developmental State could also imply for Egypt under Nasser. First of all Egypt did have a dedicated elite, a state bureaucracy and a large industrial policy. The fact that Egypt did or did not have a market-conforming state intervention is up to debate. Claiming that Korea did have market-conforming state intervention because the nation did have rapid economic growth seems to be circular logic. Their policy development might be very similar, however, their geopolitical alignments stood in sharp contrast with each other.

4.3 The World Economy in 1950

In order to determine the effects of geopolitics on development, we must illustrate the parameters of the world economy in 1950. Acquiring accurate historical GDP numbers is challenging, and oftentimes, databases proven to contain significant errors.[73] However, the Maddison Project will give us a picture of the world economy within the margin of error. In 1950 the total GDP share of the West was 56,9% of the global economy (Western Europe 26,3

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[72] Ibid,.

[73] Fariss, C., et al (2017). Latent Estimation of GDP, GDP per capita, and Population from Historic and Contemporary Sources.

+ Western offshoots 30,6). By contrast, the global GDP share of the Eastern Bloc was merely 13,1%[74], meaning that a country under the American hegemony has friendly relations with a fourfold of the world's markets, contrary to a country under Soviet hegemony. This brings us to the weapon of geo-economics for developmental growth as this paper identifies. They will be covered in Chapter 6.

[74] Maddison, A. (2007). The world economy volume 1: A millennial perspective volume 2: Historical statistics. Page 127.

5 Developmentalism in Egypt (1950-1975)

The period directly following the Second World War sees the United States as the remaining economic powerhouse in the World. This gave rise to a new economic order known as the Bretton Woods- System. This 1944 agreement was signed between the Allied Powers (First World) with the main output being that every currency was pegged to the US Dollar which was in turn linked to gold. Furthermore, the United States and its allies established the framework of the principle economic organizations governing the global economy: IMF, World Bank and GATT (which later became the WTO).[75] This system remained the dominant momentary management until the Nixon Shock of 1971. America also supplied its allies with loans in order to recover faster from the war and to serve as strong export markets in the world Economy. This Marshall Plan led to several rapid re-industrialization miracles in Western Europe (Italy, France and West Germany) and in Japan. Being included in this new world market would have very significant benefits for exports in developing countries.

In the Middle East, the decolonization process led to rapid change. In 1952, Egyptian military leaders known as the ''free officers'' staged a coup and subsequently ruled the country under the Revolutionary Command Council (RCC). Many developing countries sought to develop their economies using Import-Subsidization Industrialization (ISI) policies, and Egypt was no different.[76] The RCC wanted to industrialize the country rapidly, this transformation would be paid by a surplus of agricultural production. Later scholars would argue that this strategy is a necessary but not sufficient catalyst of economic development.[77] However, Egypt would be unable to achieve this goal. In September 1952, land reforms were pushed through with that particular aim.[78] A heavy industrialization policy was implemented

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[75] Frieden, J. (2012). The Modern Capitalist World Economy: A Historical Overview. Page 30.

[76] Waterbury, J. (1983). The Egypt of Nasser and Sadat: The Political Economy of Two Regimes. Page 57.

[77] Henley, D. Lewis, P. Van Donge, J. (2012). The agrarian roots of industrial growth: Rural development in South-East Asia and sub-Saharan Africa.

[78] Ibid,. Page 60

at the same time and steel production and fertilizer plants were among the first projects to be set up. The RCC believed that the private sector, after losing their position of feudal lords, would invest in this industrialization process. However, as a consequence of the uncertainty and perceived instability of the regime this did not occur. With private investments stagnating (or sometimes even declining), the Egyptian investments were increasingly becoming part of the growing public sector.[79] The following monetary restrictions led Nasser to look for loans in the USSR camp and to nationalize large sectors of the economy. This geopolitical shift would have massive consequences for Egypt's economy. In the Arab World, colonel Gamel Abdel Nasser rose as a proponent of Arab Nationalism, with the main goal of liberating the Arab World of imperialism. After the decline of the British and the Americans to continue funding for the High Aswan Dam, which was meant to become a key motor in the industrialization process, Nasser nationalized the Suez Canal in 1956. This led to the Suez Crisis in the same year, whereby the United Kingdom, France and Israel attacked Egypt. Because of international condemnation, the Tripartite alliance had to withdraw. This event marked the end of imperialism and hailed Nasser as a champion of the Arab World. The political victory was coincided with a continued of ISI-policy and sought to create better relations with other non-aligned countries of the global South.[80] 1960 saw the first five year plan (1960-65) and – after an initial draft by the National Planning Commission predicted modest growth – President Nasser, supported by yes-men, recommissioned a plan with more ambitions outcomes. ''The perennial minister of finance, 'Abd al-Mun'aim al-Qaissuni, got the president's ear and painted a best-case picture of real growth that was opportunistic and irresponsible. It was, however, what the president wanted to hear, and so the die was cast.''[81] The 1960s saw initial industrialization growth, but at the same time, labour productivity declined, wages grew and consumerism increased. This led to an unexpected expansion in imports, all while Egypt's extensive public sector was dragging on the countries budget.[82]

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[79] Ibid,. Page 60

[80] Richards, A., Waterbury, J., Cammett, M., & Diwan, I. (2013). A political economy of the Middle East. Page 241.

[81] Waterbury, J. (1983). The Egypt of Nasser and Sadat: The Political Economy of Two Regimes. Page 88.

[82] Ibid, Page 91.

It is no secret that a key part of Nasser's ideology was his anti-imperialist rhetoric. This is best explained by President Nasser himself in his famous 1960 speech at the UN General Assembly. ''Since when have the motherlands of peoples been the property of the imperialist, to dispose of arbitrarily and to give to others? Imperialism has its own logic. The logic of imperialism, as manifested in its crime against the people of Palestine, has been to break the geographical unity of the Arab world, on the one hand, and, on the other, to create for itself in the very heart of the Arab world a base from which to threaten the Arab peoples.''[83] This rhetoric helped Nasser construct his *Arab Homeland Discourse*, while also creating legitimacy for his newly created United Arab Republic. This geopolitical strategy had as a side-consequence the alienation of Western powers and their markets. In 1965 American would cut wheat export to Egypt, which in turn would spiral to higher food prices, and an even bigger trade deficit.[84] 1965 would also be the year when a twelve-year growth period would come to an end in Egypt and the economic started declining.[85] By the end of the 1960s, the ISI-development strategy under the banner of ''Arab Socialism'' was obviously failing. However, once again as a consequence of geopolitics, the government would get another major blow to deal with. In 1967 the Egyptian armed forces would be decisively defeated by Israel in the Six-day Wars, which had a destructive effect not only on his economy but on his entire ideology as a whole.[86]

The Egyptian geopolitical alignment is in tenacious contrast to South Korea's, which embraced American hegemony as the main protector of its very statehood. In general, countries under the American sphere of influence tend to be the ones experiencing rapid economic growth. The main argument here is that economic growth follows geopolitical trends. We see the same conclusions elsewhere. In fact, every country which has been welcomed in the club of 'Developmental States/successful late industrializer' has done so thanks to Washington's support. In the Far East, this includes Japan, South-Korea, Taiwan,

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[83]United Nations Dag Hammarskjöld Library. 15th sess. [1960, 27 Sept.]: A/PV.873*: President Gamal Abdul Nasser

[84]Waterbury, J. (1983). The Egypt of Nasser and Sadat: The Political Economy of Two Regimes. Page 95.

[85] Hamed, O. (1981). Egypt's Open Door Economic Policy: An Attempt at Economic Integration in the Middle East. Page 1.

[86] Khalil, H., & Dill, B. (2018). Negotiating statist neoliberalism: The political economy of post-revolution Egypt. Page 577.

Malaysia and Thailand. Malaysia and Thailand have not reached high-development classification, but these are all the closest friends of Washington and by far the richest. Even the friendly relationship with Washington during the Red Schism of Deng Xiaoping's China was a catalysator for rapid late industrialization. And as seen in the Middle East the abundance or lack of natural resources transcends development. There is not a single 'tiger' outside the American sphere of influence. However, some counterarguments arise. Why did no other American allies in the regions gain rapid economic growth? Namely, Morocco, Tunisia and Jordan in the Middle East and the Philippines in the Far East. All of which are so-called Major non-NATO Allies (MNNAs). First of all, alliances to the US is a necessary but not a sufficient condition. Meaning that the US alliance alone will not grant rapid economic growth. Secondly, a country needs to be of *significant geopolitical importance* in order to gain favourable economic treatment. The geopolitical importance of East Asia led the Americans to deliberately nurture the economies of friendly states in the region.[87] It is also worth noting that the tightness of South Korea with the United States, which functioned as a quasi- satellite state in the Cold War context, was far warmer than other nations. To conclude, there were significant inconsistencies within the economics of Nasserism. An overreliance on the public sector, a lack of consumer restraint and an overambitious industrialization policy are partly to blame for the failure of ISI. However, geopolitics and both internal and external instability exhilarated these issues. For developing nations, it is extremely important to have a solid geopolitical strategy. Geopolitics partly orchestrates economic growth. Correlation does not mean causality. But in the next chapter, I will demonstrate how geopolitics translated to economic development in Korea by analysing four ''weapon of geo-economics''.

[87] Gray, K. (2011). Taiwan and the geopolitics of late development. Page 585.

6 Korea’s Developmental State (1950-1980)

As previously illustrated, the 1950’s correlated to re-industrialization in Europe. This was occurring under the framework of the new Bretton Woods System. The same process happened in Japan. In the occupied country, the Zaibatsu – as partly responsible for several crimes during the war – were dismantled but soon reformed in the form of the Keiretsu. These private enterprises would be at the vanguard of the following economic boom in Japan. This economic prosperity was not shared with the Korean Peninsula across the Sea of Japan which was embroiled in a bloody civil war (1950-53).[88] This war ended with an armistice which created the Demilitarized Zone (DMZ) and the *de facto* two Korea’s: the Communist North and the Capitalist South. The sixties saw the rise of General Park-Chung Hee after a coup in 1963, supported by Washington.[89] The Republic of Korea (ROK) was still an impoverished low industrialized country in the 1960s,[90] but general Park (1963-79) sought to change this. His aggressive industrialization policy and dirigisme succeeded, and Korea started to experience the ‘’miracle of the Han river’’.[91] The Korean financial sector was tightly controlled by the authoritarian developmental state.[92] His authoritarian government is generally perceived as undemocratic, violating human rights and crashing down on the press, labour movements and opposition. Not completely unlike Nasser’s government. There are also striking similarities between the two governments in terms of ISI-strategy and industrialization policy. However, in terms of economic policy we also see two stark differences. Firstly, Egypt alienated the private sector, while Park made deals with the *chaebol.* Secondly, Nasser (under the banner of socialism) decreased labour productivity, while Park (under the banner of conservative

[88] Kim, K. S. (1995). The Korean Miracle (1962–80) Revisited: Myths and Realities in Strategies and Development. Page 3.

[90] Kim, K. S. (1995). The Korean Miracle (1962–80) Revisited: Myths and Realities in Strategies and Development. Page 3.

[91] Ibid,.

[92] Kalinowski, T., & Cho, H. (2009). The Political Economy of Financial Liberalization in South Korea: State, Big Business, and Foreign Investors.

nationalism) increased labour productivity. Lastly, the geopolitical nature of Korea gave the nation much needed breeding ground in order to develop its economy. These weapons of geo-economics will be presented in the following part.

1) Granting access to domestic markets boosts economic development of the poorer nation.

Most countries in the Global South have tried to adopt an import-substitution strategy (ISI) in the early post-war period.[93] This project has often failed for countries in the Global South. One reason for this failure is the lack of access to foreign markets, as it is difficult for foreign enterprises to outcompete domestic ones. An improvement in market access within industrialized markets could benefit export prospects for developing nations.[94] ''Politicized trade'' could help gain access to these markets in the form of formal GSPs or product-specific regulations.

It is relatively easy to set up subsidized factories, but at the end of the day manufacturing products is one thing but you also need someone buying your export commodities. A reason for the Korean Miracle is that its products were accessible to large markets, the most famous ones being Samsungs and Hyundais. The American consumer markets played a very important role in providing this for the ROK. This gives a huge incentive for companies to expand production processes. Access to US markets was indispensable for Korean development in the 1960s and 1970s, or in the words of Panayiotopoulos et Capps ''The second compensatory mechanism was a reflection of the key role played by the US market for South Korean manufactured exports. The US market, because it is very large relative to other industrial economies, is capable of much greater autonomy in the world economy and this is reflected in periodic divergences from trends common to the other industrial economies.''[95] This allowance of access can also be facilitated in the form of specific regulation in regards with

[93] Frieden, J. (2012). The Modern Capitalist World Economy: A Historical Overview. Page 32.

[94] Kirmani, Naheed, Molajoni, Pierluigi, Mayer, Thomas, & Molajoni, Luigi. (1984). Effects of Increased Market Access on Exports of Developing Countries. Page 683.

[95] Panayiotopoulos, P. I., & Capps, G. South Korea: Free Market Miracle or Mirage? Page 139.

specific manufactured commodities. One example of such is the Korean automotive industry, which was a cornerstone for its development. The Korean government waged a covert war against car imports until 1997, in order to boost its rapidly increasing export.[96] Korean companies were prevented from selling imported cars, and they had to deny foreign distributors from getting a foothold on the Korean market. Some local companies who did manage to sell non-Korean cars were promptly visited by ''tax authorities'' for an exceptionally thorough research into their incomes and taxes.[97] This harassment continued only until 1997 when the United States and Japan demanded Korea to open up its domestic car market after the Asian financial crisis. In 1997, the Korean automotive industry was already one of the main global exporters and in no need of infancy protection. The fact that the Americans and Japanese turned a blind eye for so long was very helpful to domestic Korean car manufactures

2) Foreign Direct Investment (FDI)

Most FDI flows from the global North to the global North. For countries of the Global South it is challenging to attract FDI in competition with your neighbours, but it is even harder to be incorporated in this international economic order where all the investment routes travel by. American FDI into Korea was extremely high in the General Park Era. The first inflow of FDI into Korea was almost exclusively American, suggesting a market-distorting inflow in order to provide economic development and nurturing. As the number below illustrate, American FDI did not flow into South Korea as a result of strict market mechanisms, meaning that global investors fill in the gaps where profit is possible. However, the data suggests that it too was politized. If South Korea truly was a golden opportunity in terms of economic investment, would it have attracted a wider palette of investors? Trade follows the flag and the American

[96] Luttwak, Edward N. (1999). "Theory and Practice of Geo-Economics" Page 129.

[97] Ibid. Page 129.

flag was firmly waiving over the Republic of Korea. After initial nurturing we see investors closer from home on a quest to make profit.

Country [98]	1962-1966	1967-1971	1972-1976	1977-1980	1981	1982	Total	Share (%)
Japan	0.7	40.8	376.9	180.3	34.6	41.6	675.9	47.1
U.S.A	21.9	12.4	67.9	122.9	85.2	107.6	418.0	29.0
Netherlands	0.0	6.3	58.7	37.6	1.3	1.5	105.3	7.4
Hong Kong	0.0	0.3	3.5	8.8	8.1	24.5	45.1	3.2
West Germany	0.3	2.4	2.8	12.3	3.1	3.1	24.1	1.7
Others	0.1	10.5	55.4	80.5	13.1	9.4	168.1	11.6
TOTAL Percentage of Total FDI is US	23.0 95.21%	72.7	565.2	442.4	145.3	187.8	1,436.5	100.0

Figure III: Foreign Direct Investment to Korea from the biggest investors

3) Transfer of Technology (TOT)

A third geopolitical strategy to bolster late development is the transfer of technology (TOT). TOT is simply a process whereby technology is shared in a horizontal line. This can also occur among governments, and it can be used as a geopolitical tool. In the post-war era TOTs provided the ROK with American technology in order to develop its economy. ''The

[98] Ministery of Finance as cited by Kim, K. S. (1995). The Korean Miracle (1962–80) Revisited: Myths and Realities in Strategies and Development. Page 36.

geopolitical importance of East Asia, however, meant that the US deliberately sought to nurture recovery and economic growth in the region largely through the transference of technologies and the provision of a market of the last resort..''[99] America's junior partner Japan, also provided South Korea with technology licenses and transfer.[100] This was after General Park normalized relations with Korea's former overlord. Foreign Direct Investment also plays a role in TOT. Despite FDI being percentage-wise very low to domestic fixed capital. ''FDI has had a significant impact on the quality of Korean economic development by spinning out skilled workers and managers and through technical guidance of subcontractors.''[101]

4) A shared security umbrella

Governments can cooperate on military terrain in order to provide stable ground for economic growth. The US-Korean alliance is as old as the ROK. The Republic would likely not exist was it not for American intervention in the Korean war. After this war, the US-Korean shared security umbrella kept the Korean peninsula free from military conflict.[102] This military connectedness is both a deterrent for foreign aggression as it is a partner in the development of military capabilities. Egypt embodies the obverse, American shared security umbrella with Israel had negative effects for the Nasser government. Both Egypt and South Korea had a very high military expenditure. But as Washington supported Egypt's main adversary, this proved harmful for the county.

One requirement for DS in the late 20th century seems to be of geopolitical nature. Being an ally of the United States is an unmissable premise in order to gain rapid economic growth. Egypt has not only failed on the pure economic terrain, but also on the geoeconomic

[99]Gray, K. (2011). Taiwan and the geopolitics of late development. Page 585.

[100] Panayiotopoulos, P. I., & Capps, G. South Korea: Free Market Miracle or Mirage? Page 139.

[101] Ito, T., & Krueger, A. O. (2000). The Role of Foreign Direct Investment in East Asian Economic Development. Page 284.

[102] Bong, Y. (2016). The U.S.-South Korea Alliance: Local, Regional, and Global Dimensions. Page 47.

one as well, which led to its de-development in the late 1960s. In hindsight, Nasser's aggressionism and failed geopolitics are as much to blame as “policy-oriented development”. His alienation of the public sector and his paradoxical increase in consumerism are in sharp contrast with the Republic of Korea. On the contrary, Seoul’s bandwagoning has provided the nation with the full opportunity to grow its economy, as it was nurtured by American FDI, security protection, Transfer of Technologies and access to its market. This unpreceded support from the world’s biggest economies was central to its success story.[103] It seems that there needs to be a fifth requirement added to Stubbs definition of a DS: an adequate and successful geoeconomic strategy.

[103] Panayiotopoulos, P. I., & Capps, G. (2015). South Korea: Free Market Miracle or Mirage? Page 146.

7 Liberalization in Egypt (1970-1997)

The defeat at the hand of the Israelis would prove to be detrimental to Nasser. In October 1970, Nasser would die of a heart-attack. His vice-president Anwar Sadat succeeded him and inherited all the problems of the previous administration. Israel remained the primary domestic policy concern for Egypt in the early 1970s.[104]

Sadat aimed at avenging the Arab cause and to consolidate home rule by attacking Israel in 1973 (Yom Kippur war). This conflict did not change the pre-war borders but led to the oil crisis of 1973. When Arab countries placed an oil embargo on Western countries, prices for energy soared. This, in combination with the Nixon shock, partly caused a period of stagnation. This prompted radical changes to the world economy as more and more countries liberalized their economies.[105] This neoliberal turn was consequently also promoted in other countries under a set of guidelines known as the Washington Consensus, which propagated, among other conditions: deregulation, trade liberalization, privatization and protection of property rights. President Sadat, having increased his legacy after the 1973 ''victory'', followed this advice in a process known as the *infitah* (opening). The Open Door policy worked to liberalize Egypt's economy, by relaxing exchange rate, ending the state monopoly on trade and bringing the private sector back in. The hope was that Arab investors (with their new capital accumulation post-oil crisis) and Western enterprises would flow to the newly accessible riches of Egypt.[106] The strategy aimed to waive closer ties with the West and end hostilities with Israel. Eliminating the possibility of war in the region would increase the security of investments in Egypt.[107] Sadat also switched allegiances and Egypt soon became one of the biggest receivers of aid from the United States. The Camp David Accords (1978)

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[104] Waterbury, J. (1983). The Egypt of Nasser and Sadat: The Political Economy of Two Regimes. Page 355.

[105] Amsden, A. (2007). Escape from empire: The developing world's journey through heaven and hell. Page 3.

[106] Hamed, O. (1981). Egypt's Open Door Economic Policy: An Attempt at Economic Integration in the Middle East. Page 3.

[107] Hamed, O. (1981). Egypt's Open Door Economic Policy: An Attempt at Economic Integration in the Middle East. Page 3.

however alienated Egypt from its Arab neighbours, illustrating the complex power relations which plagued the Sadat government. By this time the Open Door policy was fully established, but did the foreign investors find their way into Egypt as Sadat and his co-engineers hoped for?

Foreign capital inflow was much less than policymakers hoped for. Most of it was in tourism and real estate, which made housing even more expensive for the rural population.[108] Agricultural output was not increasing at rates sufficient enough to feed Egypt's growing population. In 1981 Anwar Sadat would be assassinated and his successor Hosni Mubarak (1981-2011) would continue the Open Door Policy. In the 1980s, Egypt witnessed changing economic growth levels, but the country did not experience a take-off. The country had taken loans from the IMF & World Bank known as Economic Reform and Structural Adjustment Plan (ERSAP).[109] Annual growth levels failed to trickle down and with a rapidly growing population its economy failed to curb unemployment. This was combined with an increasing external debt crisis. As domestic production enterprises did not manage to compete in the newly liberalized economy. Egypt's export fell while its import grew. Egypt's balance of payment worsened and its massive debt led to near bankruptcy in 1980s. The SAPs failed to deliver economic growth.[110] Two debt crises followed in 1987 and 1990. This was part of a larger debt crisis in the 1980s, where developing countries all over the world were facing bankruptcy. This was caused by a combination of higher dollar interest rates, less demand for export products and an accumulation of industrialization policy debts. The Americans sponsored the Egyptian against the Paris Club creditors leading to a massive debt relief of more than 10 billion USD. [111]Only a bailout deal, in return for Egyptian participation in the anti-Saddam Hussein coalition (1990-91)[112], saved the Egyptian economy from bankruptcy.

[108] Ibid,.

[109] Khalil, H., & Dill, B. (2018). Negotiating statist neoliberalism: The political economy of post-revolution Egypt. Page 578.

[110] Richards, A., Waterbury, J., Cammett, M., & Diwan, I. (2013). A political economy of the Middle East. Page 274.

[111] Bromley, S., & Bush, R. (1994). Adjustment in Egypt? The political economy of reform. Page 202.

[112] Weiss, D. et al. (1998). The Economics and Politics of Transition to an Open Market Economy Egypt

The neoliberal turn in the Arab World and the infitah in Egypt have been met with harsh critic. There are several reasons why the liberalization of the Egyptian economy did not amount to economic development. The attraction of FDI, which was one of the factors which would drive Egyptian development post-infitah, did not occur. One reason was the inherent instability in the region. ''The prospect of war, omnipresent in the AW, alters the background for investment decision making, miring it in historical uncertainty. Thus, one cannot assume away the context and a requalification of the concept of risk with regard to the AW is in order.''[113]

A second hope of Sadat's reformism was that Egypt's economy would be developed as a consequence of efficiency and self-sustained enterprises. Productivity would increase and, as a consequence, export would do so as well. However, what really happened was the obverse. Laissez-faire economic would be translated into the crony domestic capitalist and international capital using Egyptian resources without state-protection. Generally speaking, when trade and capital accounts are opened to global competition in security-weak industrializing economies, the door will be opened for ''plunder''.[114] Productivity levels in Egypt did not take off, and the country's trade-imbalance worsened in the next decades, to a net import of 34.677 billion UDS in 2015.[115] This in turn has led to a situation where increasingly more food was being imported rather than produced .[116] The country which once was the breadbasket of the region and the country which fed entire empires (Roman, Byzantine & Ottoman) was forced to import grain from abroad. Moreover, 9.8 million Egyptian were being classified as ''severely food insecure people'', while obesity in adult Egyptians increased more than 50% in the 2000-2016 period.[117] Egypt's economy is only kept alive by America's economic assistance, other Western countries financial aid and Gulf donations, which, according to the OECD, amounted to 4,8 Billion USD by the end of the 1990s.[118] Once again, Geopolitics plays a crucial role in this very unusual bilateral relation

[113]Kadri, A. (2014). Arab development denied: Dynamics of accumulation by wars of encroachment. Page 66.

[114]Kadri, A. (2014). Arab development denied: Dynamics of accumulation by wars of encroachment. Page 67.

[115] World Bank Open Data. https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG

[116] FAOSTAT.

[117] FAOSTAT.

[118] Weiss, D. et al (1998). The Economics and Politics of Transition to an Open Market Economy Egypt. Page 204

between Egypt and the US,as it has been argued that Washington benefits from Egypt being in this state. As the *quid pro quo* for financial assistance is a pro-Western stance of Egypt in Middle Eastern geopolitics.[119] Kadri goes as far as to claim that the neoliberal policies adopted since the early 1980s are not actually meant as developmental policies, but rather, they are terms of surrender by which Arab resources, human or otherwise, are handed over.[120] The next chapter illustrates how industrialized economies, such as Korea's in the 1980s, can mitigate the same impacts of liberalization, while simultaneously benefitting from more international trade.

7.2 Finance sector

Under Nasser, the banking sector was nationalized, and four large banks remained (National Bank of Egypt, Banque Misr, Banque du Caire and Bank of Alexandria). In contrast to other sectors of the economy, the Egyptian financial sector was not completely liberalized during the *infitah*. However several joint ventures between public and foreign banks were established, there was the requirement that the national stake had to be 51%.[121] Sadat's vision was to attract Arab capital, harness Western technology and Egyptian resources by removing the shackles of statist market distortions.[122] However, the effectiveness of the new financial institutions was very limited. The quality of loans plummeted, and most of the balance of sheets of the Egyptian banks were overloaded with non-performing loans (NPLs).[123] The arrival of foreign liquidity did more harm than good. In 1991 Egypt started a reform to completely liberalize its banking sector. This process had seen limited success, as remittances grew,

[119] Ibid, Page 199-204.

[120] Kadri, A. (2014). Arab development denied: Dynamics of accumulation by wars of encroachment.

[121] Roll, S. (2010). 'Finance Matters!' The Influence of Financial Sector Reforms on the Development of the Entrepreneurial Elite in Egypt. Page 352.

[122] Bromley, S., & Bush, R. (1994). Adjustment in Egypt? The political economy of reform. Page 202.

[123] Roll, S. (2010). 'Finance Matters!' The Influence of Financial Sector Reforms on the Development of the Entrepreneurial Elite in Egypt. Page 352.

capital markets were revived and the share of NPLs felt.[124] In 1992 the government issued Law 95, which among other, created a Capital Market Authority, as a supervising body. This was much needed as the four public banks had to reduce their shares to 20%, in order to let the market mechanism do its job.[125] This reasoning is problematic for two reasons. Statists have argued that without government intervention, particularly in developing countries (such as Egypt), funds would not be allocated to all those projects where the social returns are highest.[126] As the capitalist invest in projects regardless of benefits for society. But such a top-down approach during the Mubarak era was very prone to corruption. A new problem soon began to arise: crony capitalism. Not only does cronyism lead to capital possession inequality, but these type of crony enterprises are also very inefficient. As Diwan et Schiffbauer conclude: ''Yet, in spite of the existence of a seemingly more competitive and liberalized credit system, we show, … , that most of this credit went to politically connected firms.''[127] This new quasi-competitive financial sector was not only tasked with providing liquidity for Egypt's budget deficit problem, but also for its growing young population. It is very important to stress on this fact. A simple comparison with Korea shows the magnitude of this expanding population. Back in 1960 both nations had similar population, however in 2020 Egypt's population became twice as big.[128] To conclude Egypt's financial sector was burdened with the herculean task of providing capital flows to the nearly bankrupted economy, but on top of that Egypt's growing economy demanded more and more jobs and resources. The liberalization process was by default unable to distribute capital to where it was most needed and crony capitalists made this situation even worse.

[124] Diwan, I., & Schiffbauer, M. (2018). Private banking and crony capitalism in Egypt. Page 394.

[125] Roll, S. (2010). 'Finance Matters!' The Influence of Financial Sector Reforms on the Development of the Entrepreneurial Elite in Egypt. Page 353.

[126] Stiglitz, J. (1994) The role of the state in financial markets.

[127] Diwan, I., & Schiffbauer, M. (2018). Private banking and crony capitalism in Egypt. Page 395.

[128] World Bank Open Data.

8 Liberalism in Korea (1980-1997)

The Republic of Korea continued its rapid economic growth in the 1970s, but it too slowly liberalized its economy by the end of the decade.[129] When General Park was assassinated in 1979 Korea's economy was already four times larger than Egypt's (see figure I).[130] This fact is crucial for the comparison of liberalization in Korea and Egypt. In Korea's immediate surroundings, Deng Xiaoping's economic reform opened up the Chinese economy which led to increased intra-Asian trade flows. South Korea completed its economic boom into a high-develop mass-consumption society in the late 1980s. The debt crisis of the 1980s also led to externals shocks in East Asia, but these countries managed to adjust successfully. This has been attributed to less consumerism, a higher investment share and more FDI.[131] The country finished its transition to a democratic nation-state and later on it even joined the G20, symbolizing the metamorphosis that the country underwent in the late 20th century.

Similar to Egypt, Korea largely liberalized its economy before the end of the 20th century. However, the outcome once again proved to be very different. A big reason for this is that Korea already was a productive powerhouse, which made liberalization an easier decision. In Marxist terms, they had already become the ''exploiters'' instead of the ''exploited''. The transformation from cheap-labour and raw material exporters to capital-intensive production economy meant that Korea would benefit from free trade as it could acquire needed resources much cheaper. In other words, as long as they were among the core nations, they would benefit from this World System. The first period of liberalization (1980-1993) was categorized by slow ''neo-liberal policy adjustment''.[132] In this chapter I will look at the effects of liberalization for the two sectors of the Korean economy, finance and retail.

[129] Kim, K. S. (1995). The Korean Miracle (1962–80) Revisited: Myths and Realities in Strategies and Development. Page 5.

[130] World Bank Open Data.

[131] Kaminsky, G., & Pereira, A. (1996). The debt crisis: Lessons of the 1980s for the 1990s. Page 22.

8.2 Finance Sector

Under the framework of ''neo-liberal policy adjustment'' the Korean government slowly reformed its financial sector in the 1980s. First, non-bank financial institutions (NBFIs) were liberalized. These include, insurance firms, investment and finance companies, investments trusts, as well as security firms.[133] As one could expect, the *chaebol* would account for the biggest depositors into these NBFI's, transforming them from industrial conglomerates to industrial and financial enterprises. This process is often regarded as a disaster, as reckless investments of the *chaebol* increased the debt-to-equity ratio of these firms.[134] The lack of corporate transparency and management accountability remains a problem of the *chaebol* capitalism in South Korea[135]. At the same time, the private financial actors succeeded the Korean government in limiting international access to Korea's financial sector. It remained very hard for non-residents to purchase equity, the operation of foreign banks in Korea was controlled, and it remained virtually impossible to move big capital from and into Korea without government approval. This situation only changed after the US demanded that Korea would really liberalize its *financial* sector. As Woo-Cummings explains it: 'By 1985 Americans got what they had demanded by and large: permission to expand their working capital, to venture into trust banking, to join the National Banking Association and the Clearing House, and most important, to receive BOK rediscounts on export loans.'[136] The privatization of the Korean financial sector has been heavily criticized by scholars.[137] [138] But the slow transformation and the overall strength of the Korean economy in 1980s mitigated these impacts, which is in sharp contrast to the Infitah.

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[133] Pirie, I. (2008). The Korean developmental state from dirigisme to neo-liberalism. Page 81.

[134] Ibid., Page 82.

[135] Kalinowski, T., & Cho, H. (2009). The Political Economy of Financial Liberalization in South Korea: State, Big Business, and Foreign Investors. Page 224.

[136] Woo-Cumings, M. (1997) 'Slouching towards the market: the politics of financial iberalization', Page 82.

[137] Pirie, I. (2008). The Korean developmental state from dirigisme to neo-liberalism.

[138] Kalinowski, T., & Cho, H. (2009). The Political Economy of Financial Liberalization in South Korea: State, Big Business, and Foreign Investors.

8.3 Retail Sector

The opening of the Korean retail market does paint an interesting story. Prior to liberalization in the 1990s, the Korean government had a large role in developing and protecting its domestic retail industry. This sector was made-up by both large-scale retail enterprises, again owned by the *Chaebol,* and by more inefficient family-owned small-scale enterprises.[139] As one might have expected after liberalization occurred, the Korean retail market became more competitive, which led to a higher labour-productivity. However, small and medium-sized enterprises were outcompeted as a result of foreign competition. However, typical for an industrialized nation, the Korean retail market was not completely overrun by foreign companies as their own big business was resilient enough to compete. E-mart, which is owned by *Shinsegae*, is the largest Korean retailer and the company benefitted from liberalization, as the drive to efficiency increased the supply of large-scale stores.[140] The company even managed to expand their services to foreign markets, as regional trade barriers were uplifted.

As we have seen, the liberalization process was not only a positive factor for the Korean economy. Although it brought positive efficiency-seeking growth and FDI to the Korean economy, it has also weakened small and medium-sized enterprises and made the country more dependent on international market mechanisms. By 1980, the Korean economy was strong enough to partake in international competition. Very often infant industries are the first to face the negative effects of liberalization[141], however, after 25 year of nurturing, the biggest Korean industries had already largely developed. It could outweigh the losses from liberalization with the gains. Its slow decades-long liberalization policy is also in sharp contrast with Sadat's *infitah*. Korea was already partly industrialized in 1975, its GDP per capita was

[139] Jung-Hee Lee & Sang-Chul Choi (2005) The Effects of Liberalization in Retail Markets on Economy and Retail Industry in Korea. Page 122.

[140] Ibid, Page 124.

[141] Amsden, A. (2007). Escape from empire : The developing world's journey through heaven and hell. Page 4.

615.201 USD, twice as much as Egypt's in 1975.[142] This is even more striking as in 1967 Egypt's GDP pet capita was still larger than Korea's.[143] Secondly the neoliberal turn in Korea was slow and gradual, while the infitah was of a more revolutionary nature. These differences help explain why liberalism had such different outcomes in both case-studies.

[142] The World Bank Open Data.

[143] The World Bank Open Data.

9 Conclusion.

The latter half of the 20th century has proven to give different developmental destinations to countries in the global South. Economist have previously tried to explain these separate outcomes on the bases of vanilla economic policies. Some have blamed the state while others point their fingers to the market. However, this thesis also looked at other factors besides economic policies. The main goal of this research was to analyse the different developmental processes in Egypt and South Korea. The two governments had strong similarities, but also striking differences. The main economic-policy differences which have been found are the following. In the first period analysed: the 1950s and the 1960s both nations pursued an ISI-strategy and had a strong focus on industrialization policy. However, President Nasser's policies led to an excessive enlargement of the public sector, while at the same time also seeking to increase life standards. President Park, on the other hand, took sides with the private sector and managed to increase productivity. He also benefitted from a good relationship with the United States, which helped nurture his economy in the form of FDI, TOT, access to US markets and shared security. The weapons of geo-economics are a divining factor for economic growth in the East Asian republic. Nasser's government lacked these benefits, and never managed to achieve co-operation with his Northeaster neighbour, which proved to be devastating after the 1967 War. The two main differences in this period are: state-private sector relations and state-great power relations. This was decisive for economic development in Korea and a lack of economic growth in Egypt. In the second period (late 1970s to 1997) both countries liberalized their economies. Egypt under Sadat's *infitah* and Korea under pressure of the USA and Japan. Ultimately both economies had harsh competition, but in contrast to the Egyptian economy, Korea's economy was resilient enough to overcome them. By the time it had liberalized its economy it was already one of the largest in the region. When looking at the financial sectors of both countries, we see a similar result. The finical sector began to be clustered in the hands of an even smaller group. Egypt's developing economy and Mubarak's top-down approach was very prone to cronyism. While in Korea, the already established chaebol took large part of the banking sector over, which led to a higher amount of capital distribution. Explained in Marxist terminology: they managed to become the “exploiters’’ in the world system.

This research has illustrated that geopolitics has played a huge role in late industrialization. This is keeping in-line with the emergence of Global Political Economy as a recent multi-disciplinary field, which emphasizes the fact that the separation of the fields of politics and economics is rather arbitrary. The main point of this thesis is that without a good geopolitical strategy, late-industrialization is extremely hard and therefore a necessary, but not sufficient condition.

Further work should be carried out with the use of these new methods of understanding. Another qualitative research project that could be pursued is Turkey and South Korea, which show exceptionally similar growth figures, right until Erdogan’s presidency. I would also like to make the recommendation to further scholars to conduct quantitative research on the correlation between geopolitical alignment and economic development. Finally, I would also like to stress that this paper focused on the 1950-1997 period. A conclusion of this paper is not to claim that a combination of US bandwagoning and Import-Substitution can guarantee late development in 2020. That ship has already sailed in a world of post-industrial development and changing economic parameters. Geopolitical strategies for economic growth that have been successful back then might not be as successful now. As the global economy’s fundaments have changed so did developmental strategies. Nonetheless, lessons from the past could be useful for our understanding of developmentalism in the future.

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