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# DEVELOPMENT DYNAMIC AND NORTH SOUTH RELATIONS: UNEQUAL EXCHANGE AND THE DILEMMA OF FOREIGN DEBT IN RELATION TO SOUTH KOREA SAMPLING (1990-2004)

Mehmet ŞİŞMAN(*)

**Özet:** Bu çalışma; öncelikle kalkınma kavramının kendisinin Kuzey-Güney ilişkilerinin getirdiği sorunsal çerçevesinde incelenebileceği ön hipoteziyle hazırlanmıştır. Tarihsel olarak bakıldığında II.Savaş'dan bu yana süregelen ilişkiler içerisinde Kuzeyde üç ana alan ortaya çıkmıştır: Kuzey Amerika, Avrupa Birliği ve Japonya (Pasifik). 1970'li yıllarda kar oranlarının düşme eğilimi, petrol ve diğer hammaddelerdeki spekülatif yaklaşımlarla birleşince, Güneydeki kar olanakları Kuzeyin gereksinimlerine göre biçimlendi. Bu Eşitsiz değişim ilişkisi mali ve teknolojik sonuçlar içeren unsurları içine alarak 1990'larda değişik bir kulvara yaklaşmıştır. Ayrıca Kuzeyin doğrudan uluslar arası yatırımları Güneydeki belirli ülkelerde yoğunlaşırken (Doğu Asya ve Çin), mali hareketlilik tüm Güneyde gözlendi.1990'lı yıllarda Güneyin, geçiş ekonomileri ve sahra altı Afrika hariç, Dünya ticaret hacmindeki payı ortalama %8 civarı artmıştır. Çalışmada belirtilen Güney Kore örneklemesinden de anlaşılacağı gibi ticaretteki artış çift yönlüdür.Bugün bir çok Güney ülkesinde gözleneceği gibi ithalata bağımlı, katma değer yaratma kapasitesi düşük bir yapı oluşmuştur. Bu olgu da Kuzeyin kendi içinde olduğu kadar Güneyle arasındaki kutuplaşmayı artırmaktadır.

**Anahtar Kelimeler:** Kuzey ve Güney, Güney Kore, İhracattaki Katma Değer, Dış Borçlar, Küreselleşme, Eşitsiz Değişim

**Abstract:** At this study, it is investigated economic relations between North-South in terms of development in the South. After the Second War, In the North, there have been appeared three main eras: North America (USA), European Union and Japan (Pacific). In the 1970s, after the North has been lived crises, there were two influences. One of them, USA (North America) has been superiority against EU and Japan in the 1990s. Besides, North has invested direct and indirect capital movement in the South. South has enhanced its foreign trade in the world. But, at this study, South Korea's export, which has been, indicated a model for south, and is dependent on import and decreasing value added in its export. The other South countries have also got same situation. Brazil, Mexico China, Turkey, India, Indonesia and South Korea have got indebted over 100 billion dollar in the 2000s. North polarizes with South and itself. Unequal Exchange and the dilemma of debt have determined on the North-south relations.

**Keywords:** North and South, South Korea, added value in export, foreign debts, globalization, unequal exchange.

## I. Introduction: the concepts of "development or progress" and "North-South dilemma": all the same troublesome situation

While income difference between the richest countries and the poorest ones in the world was 5 times as much in the year 1800, it was detected that the difference rose up to 60 times as much, by the year 2000. However, during the last two centuries including the same era, average income per capita in the

(*) Yrd.Doç.Dr. Marmara Üniversitesi İİBF

world increased by 8 times (Pamuk, 2003; 383). Besides the fact that the increases in the average income per capita do not show the corruption in one society or in the economies of countries one by one, this situation arises a striking opinion about that the capitalism has created unequal income distributions since it spread on global scale. The difference in progress the tracks of which we can observe in all fields of life will itself bring along new inequalities. On the other hand, this inequality may not always be something we find out by checking the reference points at higher points. Similar to that the population (a considerable part of the populations of 24 countries in Africa) that has still been starving on present days of globalization is put on the agenda again. Besides, it is not discussed by its consequences that the unemployment in Northern countries is not a new event. We think that, at this aspect, the general difference of developed-being makes the separation of Northern-Southern countries besides the inter-class relation obligatory. Because, nation-states seem to carry their influence on global economy-politics or system for a long time more. This influence is reproduced and refreshed in the deepening of the income differences we prior mentioned (impoverishment of lower classes) in the developed areas of capitalism (the north) and in the north-south inequality (Wood, 2001; 123). The problem, as Wood put it, does not only consist of nation-states' resisting to it, but it is in connection with being face to face to a globalization among nation-states that emerged with a necessity of global capitalism. Therefore, no specific national policy (in one single country) in global capitalism organized nationally does not lead a crises just as no national strategy would be a solution to those crises alone (Wood, 2001; 125). Such a fact that "the nation-state globalization in internalized into the system" and thus the system "is in the roots of all laws of mobility" takes us to the dilemma, i.e. the conflict of north-south.

## II. Historical background of North-South economy-politics: "integration and isolation"

As we can figure out of the organizations G3, G5, G7, G8 and the efforts of G22, G77, G15 against those, the closeness's developed outside the United Nations determine the north-south relations by bringing south-south relations on the agenda while orientating north-north relations. North-south relations which may in fact be an extension of east – west relations have been walking towards a new orbit in the post-cold war era.

Although the history of the events that orientate the present North – South dilemma extends to very long past, it essentially began as the World War II ended. The European originated modern global capitalism prepared the conditions on which the USA and Japan would create their own economic sovereignty areas. The information and capital savings coming from the past put those three major north "states" into new relations. The outcome that increases with respect to the scale with more production – which correspondences to a

continual increase in profit rates – together with the high technology creating high added value which is also called speed economy made the production processes bounce and attack. (Gill 1993; 86). This attack in production both increased the profit rates of the north between 1945 – 1967 and spread the initial seeds for cooperation against the south. However, in the same period, Germany and other West European countries and Japan in the Pacific leaving the USA behind at labour efficiency is interesting in the perspective that it shows the formation of competition among "national and regional based" capitals at the same time (McNally, 2001; 110). Meaningfully, a single global capital does not seem possible just as how a single global labour power is impossible to talk about. This determination must be taken into consideration in the meaning that the North is not monotonous within itself and that it houses significant elements of competition within. Following the World War II (1952), the USA was a hegemonic power for the sake of both its gold reserves and its technological and military power. Afterwards, the re-arise and of Germany and Japan and their being economic powers in their regions in the 1960s shows the potential of competition in the North. This event is not a coincidence historically. Therefore the mentioned countries and also United Kingdom were industrialized at the end of 19th century. The decrease in profit rate in 1967 made the countries in the North face to face of a dilemma. They would either stand lower profit rates and the production would be increased or they would think globally and the decrease in profit rate, i.e. the recession of capital saving would be obstacle by carrying the production to places where real production costs were lower. Since the second option was taken more popularly, the unemployment problems and insufficiency in effective demands constituted the starting point of the problems following 1973, coming together with the tendencies of over accumulation (Wallerstein, 2000; 62). When the increase in oil prices in 1974-75 and in 1979 were added to those together with the speculation waves in other raw materials, the events which deeply affected the South side of the system were leaded. Here, undoubtedly, the over accumulation conditions, on the contrary to classical business cycles, caused the money capital left idle after the collapse of Bretton Woods System to be speculated taking advantage of the scarcity of the primary goods (raw materials). Oil prices rose up as the growth rate fell in the world economy. (Itoh and Lapavitsas, 1999; 194). The OPEC's increasing the oil prices by four times (from 3 dollars per barrel to 12 dollars) in 1974-1975 and by two times in 1979 affected the effects of the existing problems in the North and the South in two main ways: financially and technologically.

Financially: An extreme supply of loans emerged as the oil revenues -petrodollars- from the OPEC countries were added to plentiful ness of the dollars circulating on the North outside the USA -Eurodollars- (dollars used for the reconstruction of Europe and the deposits of the surpluses saved in the East Block preserved in French banks). We may mention that this mass of money capital served the North's interfering to multinational banking activities and

served the demands for loans in the Southern countries rather than its being turned into investment in the North (Şişman, 2003: 53). Those events which can be deemed to be the pioneers of financial globalization are, at the same time, the first signals for the crises emerged during 1990s and the first half of 2000s. 1982 is the beginning of the years when the foreign debt crises experienced in Mexico, Argentina and Brazil was repeated in other southern countries and again in Latin American countries. The capital that flowed from North to South in 1990s reached very high amounts but in a different form from those in 1970s and 1980s. The capital that flowed from North to South between 1990-1993 was three times more. An increase of six times was recorded in flow of portfolio investments, as the form-changing funds were denser. In 1990's, as being different from the prior period, private sector indebting were substituted with state indebting. While state indebting were more frequent in 1970s and in 80s, in 1990s, 60 % of the funds that went to South out of portfolio investments were received by the private sector. (Lairson, Skidmore, 2003; 394).

On the other hand, it was observed that the low technology industry investments directed from North to South in 1970s were directed only to some countries in the Far East and Latin America. Since labour was plentiful and relatively cheap in those countries and since the closeness to internal markets was preferred, the profit rates were accelerating up again. The countries with additional strategic importance such as Brazil, Mexico, South Korea and Taiwan were constituting the category of "newly industrialized countries" (NICs). One of those countries, Mexico, entered to NAFTA in 1995 and maintained the cheap labour source of North American region (the labour in this region can get paid only by one eighth of a worker in the USA). The 'four tigers', South Korea, Taiwan, Singapore and Hong Kong became newly industrialized countries in 1980s. The progress in the Pacific goes on taking Thailand, Malaysia, Indonesia, the Philippines, Vietnam and China in with the effect of Japan. This event may be observed through the direct investments and the bounces in foreign trade volume in the mentioned countries *(*UN/DESA, *2002*: 97-98).

According to Adda, the events of integration and isolation are the striking forms of capitalist production style. With respect to that form valid in both national and international field; *"the integration of new regions (such as Far East) or new nations to global capitalist dynamic can, by the new competition it would create, cause mass isolations in older industrialized regions which cannot adapt itself to new conditions"*. The examples from south for integration may be China, South Korea, Malaysia, Taiwan, Singapore and Thailand and the examples can be incremented. However, in sub-Sahara Africa, Latin America and the Middle East that are also parts of South, *"both isolation and marginalization in international plan and impoverishment and disintegration in internal means because of the insistence on an expertise that*

*remained from the old colonial period and that cannot be adapted to the global demand" is observed* (Adda, 2003; 128).

Those disintegrations and integrations accelerated along with the globalization. Similar to that 20th century was introduced with the worldwide regression of the hegemony of the United Kingdom; 21st century was introduced with the gaps in the hegemony of the USA. Furthermore, both the ineffectiveness of Japan, the regressing economic power of the last 15 years (Mundell, 2002), on the determination of world money capital currency and the decrease in number of transnational corporations attract attention. In the mean time, as Samir Amin states, the competitive image of China and South Korea does not mean that they are Northern countries. For example, it does not seem possible as long as a mass of at least more than 1 billion people out of 1 billion 300 million people in China does not reach the average Northern standards. The effects of the over accumulation in Japan cannot be rejected in South East Asian Crises. However, the approximate 10 % annual growth of China between the years 1990-2000 is interesting in the respect it puts the over accumulation and competition elements in Pacific forward (Sum, 2000; 156).

**III. New components determining North-South economics-politics:**

The Southern countries went through the effects of the over accumulation in the World Economy in two ways. In the first of those interactions in which newly industrialized countries are also included, the worth (price) of the merchandises in the global market that South manufactured and exported decreased. This event applicable to all raw materials but oil and all middle and low technology merchandises was followed by the increase of both the costs of the imported inputs the Southern countries use for the manufacture of the goods that they export and the financial costs (Ertürk, 2003; 240). According to that event where financial and technological reasons overlap; south has difficulties with the production of high value added goods on one hand and faces the high financial costs that comes along with this type of productions, on the other. Because the added value in low technology manufacture industries based on natural resources is lower than the industry utilizing middle and high technology (such as machinery manufacture) (Türel, 2003; 27). Therefore, an excessive technologic competition goes on both within the South itself and within the North itself. Technology transfer from North which owns the advanced technology production that includes high added value and its property by means of transnational corporations (TNCs) costs too much to South and causes extravagance as the same generic technology is imported from several firms under different names. Since the TNCs do not take the authentic conditions and factorial riggings of the country they are in, such investments mostly result an increase in that country's imports. The imported technologies, in spite of high financial costs, do not generally develop the national research and technology improvement in the Southern country.

Moreover, those efforts for improvement and the increase of export that south makes out of the concerned good have to be implemented as being subject to the limitations of transnational corporations and even of the World Bank (Martinussen, 1997; 119, 127). Technology transfer from North accelerated as mentioned above as real socialist countries transformed themselves into capitalism in 1990s. Additionally, the capital sufficiency of the subsidiaries in the countries TNCs enters, low labour-intensively, closeness to the market and geostrategic elements affect technology transfer. Now, we shall have a look at the current situation in South Korea, one of the model countries for technology transfer.

**III.A-Relation of export-added value in South Korea sample:**

South Korea, as one of the four tigers in East Asia, has carried its industrialization up to significant points by providing a capital saving that has been shown as a model for South in the World Economy, since 1970s. It is observed that South Korea differentiated it's develop mentalist understanding of state in 1990s and wanted to adapt itself to financialization (Chang, 2002: 97). That certainly brings along many problems. According to the research by South Korea central Bank, the incremental effect of an increase of Won 1 billion in export has fallen down to one third, evaluating the last ten years. While the export goods are mostly capital-intensive goods, dependence to import increases gradually, and small and middle size firms are required to increase their competitiveness's. It was discovered that, although the increase in export went on, the effect to create businesses and the added value of that increase fell down. The effect of an increase of won 1 billion in export to create businesses fell down to one third within the last ten years. The Central Bank stated when it computed the "business creating coefficient" which shows the effect of an increase of 1 Won billon in export to create businesses and found out that it was 46.3 persons in the year 1990, 25.8 persons in the year 1995 and 15.7 persons in the year 2000 that it decreases by 66 % within 10 years (http://ucc.media.daum.net/uccmix/news/economic/industry/200407/, 12 July 2004). This situation here is that the export products in South Korea are directed gradually to capital-intensive goods such as semi-conductive and cellular telephones while, now, only some part of the components used for the production of those products are supplied from the domestic small and middle size businesses but most of them are supplied from imported inputs.

In South Korea, for instance, while the share in total export of electronic and electric sector, which is the primary export product, was 27.6 % in the year 1995, it increased by 2.9 % in the year 2000 and became 30.5 %. However, the share of the sector in total import rose from 23.3 % up to 32.4 % and increased by 9.1 %. Therefore, the 'Import Creating Coefficient' that shows import necessary for export of Won 1 billion increased form 0.308 in the year 1990 up

to 0.367 in the year 2000 (http://ucc.media.daum.net/uccmix/news/economic /industry/200407/, 12 July 2004).

The contribution of export to GDP decreases gradually, too. According to the report titled "the effect of export to create added value" released by KDI (Korea Development Institute), it is discovered that the 'Added value coefficient' that shows the effect of an increase of Won 1 billion in export on GDP became 0.582 and decreased by 18.1 % in the year 2003 while it was 0.711 in the year 1993. That event shows us that *the contribution of an export of Won 1000 in South Korea was Won 711 ten years ago, while it became Won 582 last year*. Similarly, a KDI researcher explains the reason of decrease in added value in export as follows: "The export diminished in products such as beverage – food, textile – ready-made clothes and metal products which have high added values. The export rose in products such as semi-conductive, informatics devices which have low added values and auxiliary (component) industries lost their competitive power". Another example for that stands in semi-conductive sector. Added value creating coefficient of this sector decreased to 0.497 in the year 2000 while it was 0.598 in the year 1993. However, the share of the mentioned sector in total export increased up to 12.0 % from 7.68 during the same period. (http://ucc.media.daum.net/uccmix/news/ economic/industry/200407/, 12 July 2004).

In South Korea which shown as a model for all Southern countries, the effect of export to create added value significantly diminishes, a hiatus emerges in the chain increase in export→ increase in added value→ increase in domestic demand, and basically, if the competitive power of small and middle size businesses are not increased, this type of a structural problem is expected to continue to exist.

## IV. Conclusion: Dilemma of foreign debts and unequal distribution

North, in 1990s met a convenient medium to liberalize capital flows in Southern countries as required to neo liberal policies. Because Southern countries shown the stabilities to adapt by realizing significant privatizations. Argentina acquired privatization revenues up to $ 27.9, Brazil up to $ 34.3, Columbia up to $ 5 billion, India up to $ 7.1, Indonesia up to $ 5.2, Malaysia up to $ 10 billions, Mexico up to $ 30.5 billion, Pakistan up to $ 2 billion, Peru up to $ 7.5 billion, Singapore $ 1.9 billion, South Africa up to $ 2.5, Turkey up to $ 3.6 billion, Thailand up to $ 3.6 billion and Venezuela acquired up to $ 5.9 billion between the years 1990-1997. The privatization process currently continues (http://www.southcentre.org/publications/competition/toc.htm,date of access 22 7.2004). On the other hand, the share of Southern countries global foreign trade volume has been increasing except for sub-Saharan Africa and transition economies (Eastern Europe). Hence, the share of Southern countries in global export rose up to 32.0 % in the year 2000 while it was 23.9 % in the year 1990. Similarly, the share of South increases in global import, too. That

ratio rose up to 22.1 % in 1990 up to 29.1 % (UNCTAD, *Handbook of Statistics, 2002; 48)*. This event, as indicated before, occurs not by total integration of South and North but together with the event of isolation of regions such as sub-Saharan Africa. Moreover, technological bounce is not observed in the regions of South, which more integrate to the World Economy. As sampled within the paper, the capacity to create added value, which is most important indicator of technological bounce, decreased in South Korea in the last ten years. Furthermore, the 'creative destruction' Schumpeter put forward occurs as the improvement in trade leaves the improvements in production. Because, the tendencies of unemployment that increase as being effected by and being a consequence of the difficulties in added value increments are perceived as negative signals both by North and by South (UNCTAD, 2003; 49)

On the other hand, the capital movements that flow from North to South with the applications of financial deregulation or reregularization maintain their mobility as they shorten their times of return and as they cause destructions. While the money capital flows that are directed to private sector indebting and to portfolio investments relative to previous periods became the primary factors of the breakout of crises in Turkey and in Mexico in 1994, in South East Asia in 1997, in Russia and in Brazil in 1998, they were significant factors of the crises in Turkey in 2001 and in Argentina in 2002.

Furthermore, as considerable bounces are observed about direct investments from North to South, those investments are busier in China and other East Asian countries. Meaningfully, an unbalanced distribution among Southern countries is observed (UNCTAD secretariat calculations, based on IMF, *World Economic Outlook*, April 2003; 25). Another difficulty with the increase in competition and implementation of macro policies is the tendency for foreign indebting that increases with the effect of increasing capital movement. As a consequence of those capital movements, the foreign debts of southern countries such as China, India, South Korea, Turkey, Russia, Argentina and Brazil have already exceeded Dollars 100 billon in 2000s. None of those countries had such considerable indebting while getting introduced to 1990s (DPT, International economic indicators, 2003; 54).

Consequently, in the way capitalism operates in World Economy between 1990-2004, despite the considerable mobility gone through in merchandise trade and in financial and real investments, the unequal exchange relation continues to be a cost that South suffers along with a heavy foreign indebting burden. This event causes the polarization both within North itself and between South and North go further.

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