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Review Article

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Discuss and Assess the World Systems Theory Proposition that Globalization Fosters and Perpetuates Economic Inequality

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Ha result of unprecedented flows of goods, services, capital, information, and technology among countries [1]. Economic interdependence and cooperation between nations drastically changed after 1945, resulting in the entire change of the global economic and political system. This phenomenon, known as economic globalization, resulted in a new globalized reality with significant changes that many academics seek to analyze [2]. One of those academics was Immanuel Wallerstein, who proposed the World Systems Theory. The theory outlined an international model based on the inter-regional and transnational division of labor to understand better the relations between developed and less developed economies within the global system. He divided the system into three main categories, core nations (highly developed countries), semi-peripheral nations (economies in between core and periphery), and peripheral nations (developing countries). The theory holds significance, as it incorporates a historical analysis by tracing the processes of colonialism and neo-colonialism, to outline how core nations hold structural advantages within the international economic system. These advantages consist of the ability of core nations to control high-value production, to exploit periphery and semi-periphery nations, and to regulate global trade and finance through global institutions in ways that benefit them [2]. In turn, these advantages entrench economic inequality by limiting the ability of semi-periphery and periphery nations to move beyond their subjugated position by achieving equitable economic development and independence [3]. In essence, the system is self-reinforcing, with inequality embedded as a necessary tool, that keeps political and economic capabilities subordinated by periphery and semi-periphery, for the maintenance of the dominant position to be held by core nations [4]. However, as a theory established in the second half of the 20th century, its applicability is limited to the current dynamic economic reality due to its rigid distinctions of production processes and exploitative behaviors. Because of this, the following paper will seek to answer whether the World Systems Theory accurately assesses how globalization fosters and perpetuates economic inequality and whether it should be used when studying the current global order.

Wallerstein's characterization of the world economic map in three regions was primarily based on the international division of labor, which in turn, determined the production and labor conditions within each region, and the exploitative relationships between those regions that have resulted due to those exact conditions [5]. On one hand, the core regions are characterized as dominant players within the world system, due to their high industrialization, economic advancements, and technological developments. Due to their advanced manufacturing, technological, and service sectors, and their highly skilled and well-paid workforce, these regions engage in the production and exporting of high-value goods and services. Because of this, such nations yield high-profit margins [3]. On the other hand, the periphery regions are the weakest players within the world system, due to their low industrialization, economic advancements, and technological developments. By deeply relying on primary sectors in agriculture and raw materials, with a low-skilled and low-paid labor force, these regions engage in the production and exporting of low-value goods and services. Because of this, such nations yield low profit margins, undermining their ability to achieve economic growth and development [5]. Lastly, the semi-periphery nations, which many scholars have criticized as being vague in description, consist of a combination of production and labor conditions of core and periphery regions. Even though they export some forms of manufactured goods, they still heavily rely on the export of raw materials. Because of this, even though they are more industrialized than the periphery, they aren't fully advanced to reach the level of the core region [5].

Taking into account the production processes and labor conditions, Wallenstein depicts a system where the core exploits both the semi-periphery and the periphery, while the semi-periphery, being exploited by the core, simultaneously also exploits the periphery in a very similar way as it is being exploited. These exploitative dynamics proposed by Wallerstein fundamentally contribute to the inability of peripheral and semi-peripheral nations to reach the developmental level as core nations, as they reinforce them to depend on the export of low-valued raw materials, that are also very volatile by nature, with little opportunity to engage in high-value production processes [5]. Today, reports have shown that 68% of developing countries (95 out of 141 countries) are dependent on primary commodities, and it is the least-developed countries that are the most dependent, gaining more than 80% of their export earnings from them [6]. Commodity-dependent countries can be seen in the following Figure.

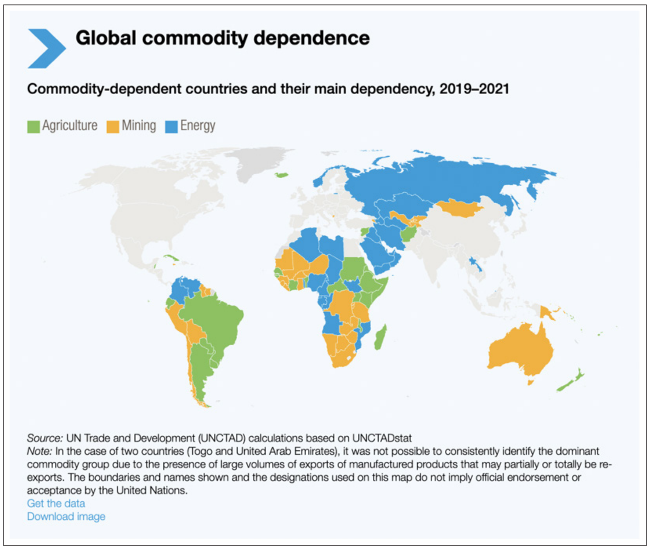

Figure 1: Global commodity dependence [7].

There are two main mechanisms of exploitation outlined by Wallenstein that limit the ability of peripheral and semi-peripheral to diversify their economies by engaging in high-value production processes. One of the main reasons that the theory explains is the unequal exchange of trade systems [5]. Primarily dominated by core nations, institutions such as the IMF or WTO, put favorable policies that predominantly benefit core nations. Such policies are known as Structural Adjustment Programs (SAPs) that have been implemented within developing countries. With the narrative of the importance of increasing national earnings from the increase in production and export of raw materials, the prices of such materials have significantly decreased due to steady demand. In turn, due to the exchange of low-priced raw materials from the semi-periphery and periphery to the core, in exchange for high-priced manufactured goods produced by the core, semi-periphery, and periphery make significantly less income for their exports, while core nations reap higher profits from their value-added manufactured products. In essence, such Structural Adjustment Programs (SAPs) discourage semi-periphery and periphery from generating significant amounts of income that can be invested in diversification efforts, leading them to be locked in a cycle of economic dependence on raw material exports [3]. One can take the example of Ghana. Even though the country is the second biggest producer of cocoa beans, it earns about 2% of earnings in the $100 billion industry. By looking at the value chain of cocoa, cocoa growers export low-priced cocoa beans to Europe and North America where big chocolate companies process them into finished chocolate products. While big chocolate companies generate billions of dollars in annual revenue, Ghana is locked in a cycle of exporting low-value raw materials and earning significantly less profits. In turn, Ghana has struggled to open up chocolate factories in order to become part of the high-value production process, due to lack of investment and generated income from their highly dependent cocoa export [8]. This resource dependency has been shown to have a negative correlation with economic growth and development, as statistics show how between 1980 and 2005 GDP per capita grew far more slowly in net natural resource exporters (0.6%) than in net natural resource importers (2.2%), depicting how core nations have generated more GDP per capita by importing natural resource, in comparison to semi-periphery and periphery who generate less GDP per capita by exporting them [9].

The second exploitative mechanism is seen in how nations in the semi-periphery and periphery are subjected to foreign control and exploitation by multinational corporations by core nations. These corporations have control over primary industries within these countries, thereby, extracting resources and minerals without significantly contributing to the industrialization and development of the semi-periphery and periphery nations [10]. Essentially, the profits generated by the large extractions of raw materials or resources are concentrated within the hands of corporations, rather than within the hands of the local communities. This external control, which is unregulated due to the required restraints from any form of government monitoring by the semi-periphery and periphery on foreign operations in their lands, significantly diminishes the ability of nations within these regions to establish a sustainable and diversified economy[11]. This has been seen in countries such as Nigeria and the Democratic Republic of Congo (DRC). In Nigeria, multinational oil corporations such as Shell and Chevron dominate the oil industry by generating vast amounts of annual revenue, without contributing to the developmental efforts within the Niger Delta. In turn, these corporations further exacerbate environmental degradation and social unrest within local communities [12]. The same exact implications have been observed in the DRC, where foreign companies from China have the predominant control over the cobalt industry, as their state-run and private corporations control 70% of all copper and 50% of all cobalt mined in the country. While the extraction of cobalt generates profits from the production of lithium-ion batteries, this profit is not distributed among local communities and infrastructure developments within the DRC [13].

Taking both exploitative dynamics into account, Wallenstein outlines a lack of economic autonomy possessed by semi-periphery and periphery nations, structurally preventing them from climbing the ladder and reaching the core. In turn, such countries are highly dependent on core nations and highly vulnerable to price volatility of global commodities, as their economic growth is deeply influenced by their ability to generate flows of revenue from the export of commodities. Because of this, such mechanisms of exploitation by core nations have been shown to perpetuate economic inequality in the semi-periphery and periphery nations [5].

In order to critically assess whether the theory accurately assesses how globalization fosters and perpetuates economic inequalit, it is of high importance to firstly mention key socio-economic indicators that represent the current economic map. On a global scale, as outlined by the Gini coefficient, economic globalization has been accompanied by the fall of global economic inequality, which refers to the disparities in resources, wealth, and economic development amongst countries. Simultaneously, this trend has been accompanied by a significant reduction in global poverty [1]. These trends can be seen in Image 2 and Image 3. The fall of both indicators can be understood as the result of the increase of economic growth within many parts of the developing world, as seen in Figure 4 regarding the economic dynamics of BRICS countries that are traditionally seen as “semi-periphery” and “periphery” nations.

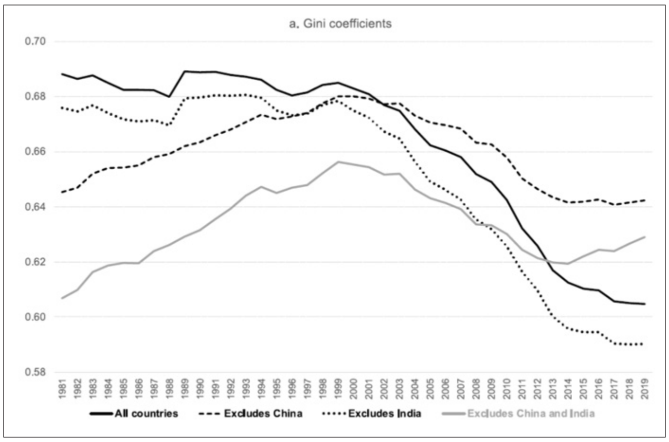

Figure 2: Global economic inequality [14].

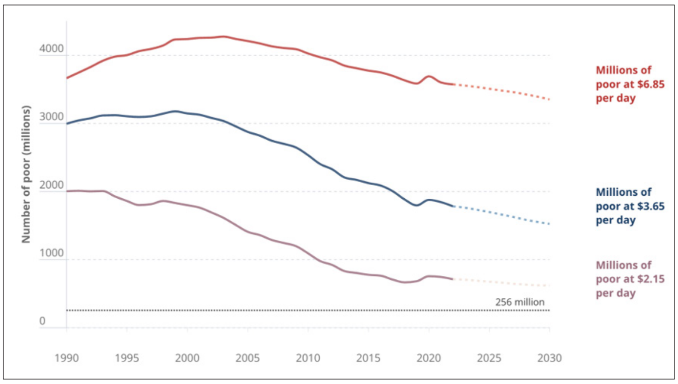

Figure 3: Global poverty [15].

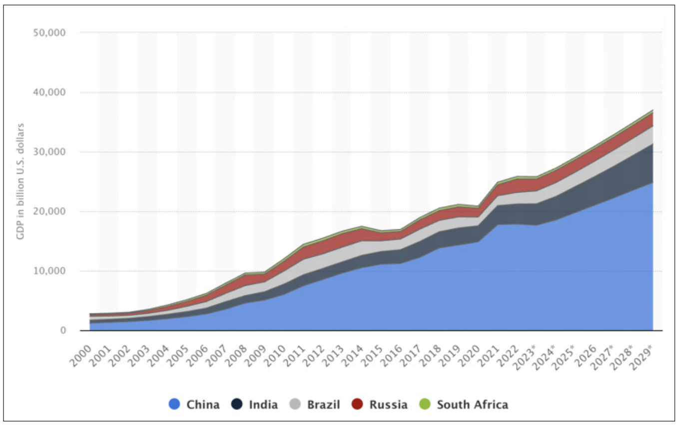

Figure 4: Gross domestic product (GDP) of the BRICS countries from 2000 to 2029 [16].

Taking into account, trends such as the reduction of poverty, increase in gross domestic product within developing countries, and most importantly, the fall of global economic inequality, we come to question whether developing countries within the semi-periphery and periphery are considered to be perpetually underdeveloped and exploited. Are there flaws when seeing the international system as a strict division of labor proposed by the World System Theory? Is the theory accurately assessing the current dynamic shift of the global economy, and are core nations the only dominant players within the economic map?

The main criticism of the world-system theory, in its traditional creation, is its limited applicability in the current global economic reality, as a result of its rigid distinctions of production and labor conditions [3]. Firstly, by placing each region within a specific production process framework, determining whether the region is dominant or subordinated within the economic map, the theory fails to account for the explanation of shifts in manufacturing processes that have substantially taken place in semi-periphery and periphery nations from core nations [2]. In his theory, Wallenstein has simplified the division of labor, by historically taking the United States, Western European countries, and Australia as core regions that dominate high-value production processes such as the manufacturing of goods and technology while taking Eastern Europe, Africa, Latin America, and Asia as semi-periphery and periphery regions that do not engage in high-value production processes, because they only supply raw materials. This paradigm has been disrupted as an effect of globalization, as many high-value manufacturing processes have been moved to emerging national economies such as China, India, Indonesia, Mexico, and Brazil. In turn, these nations have become global manufacturing hubs, as seen in Figure 5, due to their low labor costs, technically skilled workforce, good infrastructure, and favorable business climate [17]. This has especially been seen in China, a considered semi-periphery nation that is currently the largest manufacturing producer, and exporter of merchandise, due to its dominance in automobile and technological sectors. As of 2024, China makes up 31.6% of the global manufacturing output and holds the position of the second-largest economy with a share of 16.9% [18]. In turn, China's current position has altered the traditional global hierarchy by diminishing the historical advantage of the cores' dominance in high-valued manufacturing processes. Consequently, the theory's rigid defined production processes no longer hold significance in the current economic map.

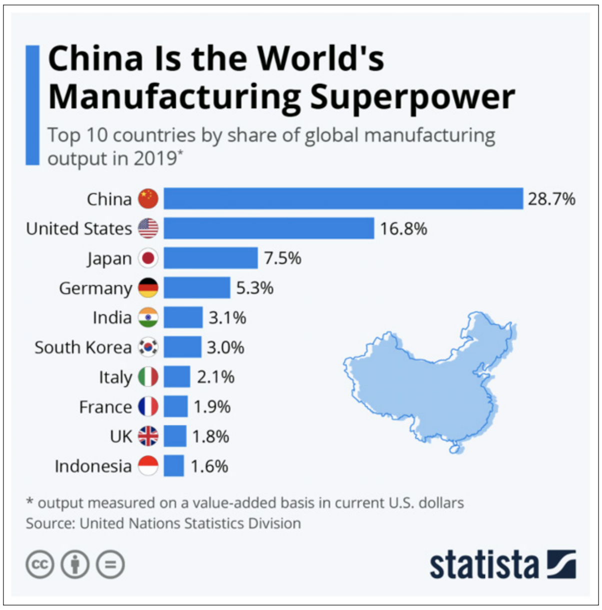

Figure 5: Top 10 countries by share of global manufacturing output 2019 [19].

Secondly, by assuming that semi-periphery and periphery nations that engage in low-valued production processes, such as the production of raw materials, yield low-profit margins and are perpetually underdeveloped and weak in global influence, the theory fails to assess current dynamics such as increased prices of natural resources, as seen on Figure 6, which in turn, have elated certain resource-dependent nations in the semi-periphery and periphery [2]. In turn, the theory fails to recognize the potential for such nations to leverage their natural resources for economic development and influence in global affairs [20]. A key example that can be taken to further elaborate on this is Saudi Arabia. As a classified "periphery" nation with a heavy reliance on oil as a primary commodity for exports, Saudi Arabia is one of the richest nations in the world in terms of GDP per capita, as oil wealth has been distributed towards developmental efforts, through investment in infrastructure and standards of living, thereby countering the assumption that all "periphery" nations are perpetually underdeveloped [21]. In addition, by becoming one of the main leaders of OPEC, Saudi Arabia has developed significant geopolitical influence, thereby also breaking the assumption that all "periphery" nations are perpetually weak in international affairs. In essence, this theory is limiting as many developing countries placed in the "periphery" for example, do not share the same levels of underdevelopment and influence [3]. This phenomenon challenges the assumption that resource-dependent economies are always the weakest or most underdeveloped within the economic map.

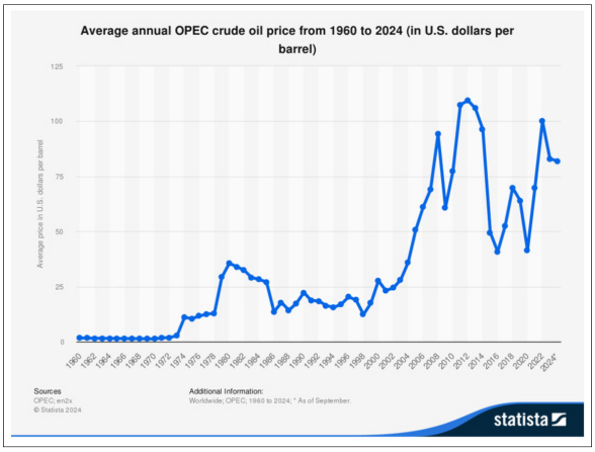

Figure 6: Rise of crude oil prices from 1960 to 2024 [22].

In addition, the theory has been criticized by many scholars due to its limited assessment of the exploitation behaviors conducted by core nations through governing institutions such as the IMF and exploitative practices of raw materials. Firstly, even though the theory proposes that international institutional policies dominated by core negatively impact semi-periphery and periphery nations, by limiting their ability to diversify their economies, it fails to assess how economic liberalization through the implementation of such policies has yielded Foreign direct investment (FDI) inflows from the core to the semi-peripheral and peripheral. One can take India as a leading example where FDI inflows have significantly led to economic growth and development. FDI inflows in India grew from US$15 billion for the 1990-1999 period, to US$372 billion for the 2010-2019 period which was also accompanied by a growth of 10.5% of GDP in 2010 to 21.8% of GDP in 2021 [23]. This positive effect of FDI inflow on economic growth has also shown a positive effect on economic development, as reports have shown a growing increase in manufactured export activities, and investment in job creation, education, and infrastructure development [24]. In essence, FDI inflows have allowed periphery nations such as India to develop diversified economies in other sectors beyond raw materials, challenging the theory's assumption that nations in the periphery face limitations in diversification due to IMF policies. Secondly, through the assumption that semi-periphery and periphery nations are trapped in a perpetual cycle of underdevelopment as an effect of exploitative practices such as the extraction of raw materials by multinational corporations, the theory overlooks critical internal factors that contribute to underdevelopment within these nations [3]. In the case of Nigeria, undoubtedly, oil extraction by multinational corporations has resulted in environmental degradation and social unrest. However, internal factors such as corruption, weak institutions, and economic mismanagement have also perpetuated efforts of development and a decrease in economic inequalit [25]. Nigeria is ranked 45 out of 180 countries in the Transparency International 2023 Corruption Perceptions Index, illustrating how corruption is one of the systematically embedded developmental challenges within the country [26]. In 2013, the Nigeria National Petroleum Corporation (NNPC) had failed to account for $20bn of the $67bn in revenue from the state oil sector, many of whom blamed corruption and lack of public transparency as key factors due to these financial losses [27]. In addition, in 2023 the US Justice Department recovered over $53M in profits obtained from corruption in the oil sector by former oil minister Diezani Alison-Madueke and businessman Olajide Omokore [28]. In turn, corruption, lack of transparency, and accountability within the oil sector have led to significant revenue losses, which could have been invested in economic growth and development, allowing for vested interests to prosper at the expense of public benefits [29]. By taking this into consideration, by simply emphasizing external factors such as exploitation, the theory overlooks key internal aspects, limiting the scope of understanding the complexities of underdevelopment that are experienced within the developing world.

In conclusion, Wallerstein's World-Systems Theory provides a valuable analysis into the historical dynamics of the global order, through tracking the processes of colonialism and neocolonialism to understand the global division of labor. By emphasizing exploitative mechanisms, such as unequal trade relations and extraction of resources by multinational corporations the core, of the theory does provide a compelling assessment of some significant barriers to economic diversification and equitable development within the developing world. However, in today's rapidly evolving global economic landscape, the theory's applicability is limited. To an extent, the rigid distinctions of production and labor conditions that, in turn, determine whether the regions are dominant or subordinated within the economic map, do not hold truth in the current globalized economy. The theory fails to assess the shift of manufacturing productions from core to semi-periphery and periphery nations such as China, India, Indonesia, Mexico, and Brazil that have altered the economic hierarchy by diminishing the structural production advantages held by the core. In addition, the theory fails to recognize the leverage of resource-dependent economies like Saudi Arabia that have risen as influential geo-political actors. In terms of the exploitative mechanisms, the theory is also limited as it fails to outline foreign direct investment (FDI) as a key part of IMF policies that fosters development, and the internal factors such as corruption, weak governance, and economic mismanagement, within semi-periphery and periphery nations, that have perpetuated underdevelopment. In essence, the theory fails to account for the rise of emerging economies in the semi-periphery and periphery, which has contributed to a fall in global economic inequality. By subverting the idea of a Global South that is unified and powerless, many emerging economies within Asia, Africa, and Latin America traditionally considered to be part of the "semi-periphery" or "periphery", have cultivated enough political and economic capabilities to emerging as substantial leaders in the international system Taking all of this into account, even though the system theory should be studied due to its relevance in some historical contexts, it does not accurately assess the complexities of modern economic relations, underdevelopment, and global inequality [30].

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