

Chapter 3

The World

ABSTRACT

We will now look at the general results from the ψ model (developed in Chapter II). The chapter examines the overlap between the world-systems theory classification of core and periphery countries and the ψ model classification of sink (economically efficient) and source (economically inefficient) countries. Core countries exhibit not only economic complexity but also complex institutions. However, some of these countries, such as Australia and Canada, are not economically efficient, mainly due to their large footprint and low population density. On the other hand, some semi-periphery countries, such as South Korea and Turkey, are economically efficient according to the model.

INTRODUCTION

In Chapter II, we defined economic efficiency at country j as follows:

$$\psi_j = \ln \left[\frac{\tilde{E}_j}{E(\tilde{E}_j)} \right] \quad (1)$$

The model argues that countries are entrusted with a portion of the world's area and population, and are expected to transform these energies into an output in the form of goods and services. This expectation provides a normative signal where a minimum, or a floor, is established as a proportion of the 'world-system' output (see below). For countries to exceed the minimum

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output, they have to utilize capital, which they have to absorb from the ‘world-system,’ and accumulate within their economies. Countries that can do so are said to be efficient. This efficiency is linked to economic complexity and suggests a corresponding level of economic growth and development. These countries are called ‘sink’ countries because of their ability to attract and absorb capital. On the other hand, countries that are unable to employ capital in their economic process are called ‘sources,’ because they release their capital to the sink countries. These source countries are below the floor output and hence are classified as inefficient.

The ‘world-systems’ theory is a useful framework for understanding the ψ model. First, the chapter introduces the theory and its application with the ‘global cities hypothesis.’ Later the chapter looks at the overlap between this theory and the results from the model. The analysis unveils economic weakness in countries considered to be at the core of the existing world-system, while others that are considered at the periphery show robust economic efficiency.

The concept of ‘world-systems’ was introduced by Immanuel Wallerstein in the 1970s to provide a new analytical framework that is not limited to the nation-state (Wallerstein, 1974, 2007). Wallerstein defines a world-system as follows:

A world-system is not the system of the world, but a system that is a world and that can be, most often has been, located in an area less than the entire globe. World-systems analysis argues that the unities of social reality within which we operate, whose rules constrain us, are for the most part such world-systems (other than the now-extinct small minisystems [sic] that once existed on the earth). World-systems analysis argues that there have been thus far only two varieties of world-systems: world-economies and world-empires. A world-empire (such as the Roman Empire, Han China) is a large bureaucratic structure with a single political center and an [Axial Division of Labor,]¹ but multiple cultures. A world-economy is a large axial division of labor with multiple political centers and multiple cultures. In English, the hyphen is essential to indicate these concepts. “World system” without a hyphen suggests that there has been only one world-system in the history of the world. “World economy” without a hyphen is a concept used by most economists to describe the trade relations among states, not an integrated system of production. (Wallerstein, 2004, pp. 98-99)

World-systems can be analyzed using ‘global cities’ (Sassen, 2001, 2005, 2006) rather than nation-states. The ‘world-system’ incorporates ‘global

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