
COMMODITY CHAINS AND FOOTWEAR EXPORTS IN THE SEMIPERIPHERY

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THE DECLINING SIGNIFICANCE OF INDUSTRIALIZATION

There have been striking changes in the structure and dynamics of the world economy during the past several decades. The international division of labor has evolved beyond the classic pattern by which developing nations exported primary commodities to the industrialized countries in exchange for manufactured goods. Industrialization today is the result of an integrated system of global trade and production. International trade has allowed nations to specialize between industry and other sectors, between different branches of manufacturing, and increasingly even between different stages of production within a single industry. This process, fueled by an explosion of new products and new technologies since World War II, has led to the emergence of a global manufacturing system in which production capacity is dispersed to an unprecedented number of developing as well as industrialized countries (Gereffi 1989a).

This process of the globalization of production has had uneven consequences, however. One set of countries that has done exceedingly well in the postwar era is that of the East Asian countries. Japan, and its regional neighbors South Korea, Taiwan, Hong Kong, and Singapore not only registered record economic growth rates during the prosperous 1960s when international trade and investment was expanding worldwide but also managed to sustain their dynamism throughout the 1970s and 1980s in the face of severe oil price hikes, a global recession, and rising protectionism in their major export markets. This rapid economic growth, furthermore, has been accompanied by a relatively egalitarian distribution of income that in large part is a result of significant programs of agrarian reform undertaken in Japan, South Korea, and Taiwan in the late 1940s and early 1950s.

The rapid growth of the East Asian economies stands in sharp contrast to the experience of Latin America, which was the most industrialized region in the

developing world in the 1950s and 1960s. In the past decade, however, Latin American nations have found it difficult to maintain their previous levels of economic growth as they confront mountainous external debts, high rates of inflation, shortages of investment capital, and the growing social and economic marginalization of large segments of their population. A particularly dramatic indicator of this decline is the fact that the gross national product (GNP) per capita of the four newly industrialized countries (NICs) in East Asia has increased sharply during the 1980s, while the GNP per capita of the three Latin American NICs (Brazil, Mexico, and Argentina) has stagnated and declined during these years (see Gereffi and Wyman, 1990).

The disparate social and economic consequences of industrial growth in the East Asian and Latin American NICs over the past couple of decades underscore the fact that "industrialization" and "development" can no longer be treated as synonymous. Despite similarly high levels of industrialization in the NICs from both regions, the East Asian nations have performed significantly better than their Latin American counterparts in terms of standard indicators of development such as GNP per capita, income distribution, literacy, health, and education (see World Bank 1988, tables 1, 26, 30).

Just as industrialization can not be equated with development, neither can it be equated with proximity to core status in the world-system. By the late 1970s the NICs not only caught up with but overtook the core countries in terms of degree of industrialization (Arrighi and Drangel 1986, 55; World Bank 1988, table 3). This achievement, however, has not necessarily led to a substantive change in the position of the NICs in the hierarchy of nations in the world-economy. Core countries now accumulate wealth by concentrating on the service sector and on the most productive, high-value-added segments of manufacturing. While industrialization may be a necessary condition for core status in the world-system, it no longer is sufficient. Continued innovations by the most developed nations make core status an ever-receding frontier.

The central objective of this chapter is to use the dynamism and heterogeneity of the East Asian and Latin American NICs to address a key issue in world-system theory: the diverse sources, paths, and consequences of mobility in the semiperiphery. To explore this topic, we focus on the footwear industry. As a basic consumer good, footwear has been a central building block in the NICs' construction of linkages to the world-economy. This study provides us with new insights about short-term patterns of semiperipheral mobility and their broader significance for the changing structure of the world-economy.

Our discussion is organized as follows. First, we review the world-system literature in order to identify key concepts and propositions about semiperipheral mobility. Second, we use the notion of "commodity chains" to spatially map the location and sequence of "core" and "peripheral" economic activities across national boundaries for the global footwear industry. Third, we describe the emergence of South Korea, Taiwan, and Brazil as the world's leading footwear exporters in the late 1970s and the 1980s.

Fourth, we show how an analysis of the four segments of the commodity chain in footwear—raw material supply, production, exports, and retail marketing—provides a broader understanding of the opportunities and constraints for mobility by the NICs within the footwear industry. Fifth, we identify two key elements in the NICs' strategy for export success: the establishment of specialized export niches in the U.S. footwear market and industrial upgrading (i.e., an increase in the unit value of footwear exports) within these niches to stay ahead of their competitors. Sixth, we relate our findings about relative mobility in the semiperiphery to the larger issue of the significance of industrialization for the changing structure of the world-economy.

THE SEMIPERIPHERY AND MOBILITY IN THE WORLD-SYSTEM

The concept of the semiperiphery is simultaneously a crucial constituent unit of world-system theory and one of its least explicated parts. It is a crucial concept because the countries grouped within this category encompass some of the most turbulent and dynamic areas of the world-economy. The term semiperiphery identifies countries undergoing extraordinary economic growth (South Korea, Taiwan, Hong Kong), processes of political democratization (Argentina, Brazil, Spain, Portugal), control over key natural resources (Venezuela, Mexico, Saudi Arabia), and regionally critical ethnic conflicts (South Africa, Israel, Iran).

Many features of the semiperiphery remain unclear, however. Part of this ambiguity is the consequence of the conventional tendency to treat the semiperiphery as a negative or residual category (not core/not periphery). Other problems with the concept of the semiperiphery include the sheer diversity of the countries it encompasses, the tendency to generalize what is true of specific countries to the conceptual aggregate, and a pattern of emphasizing similarities and disregarding differences (Gereffi 1989b).

The question of semiperipheral mobility is one of the least clearly developed and understood topics in world-system theory. In an effort to shed more light on this phenomenon, we will address three sets of related issues: (1) What is the structure of core-periphery relations through which mobility is defined? (2) How prevalent is sustained mobility between the core, semiperipheral, and peripheral zones in the world-economy? (3) What is the significance of the short-term mobility that occurs via the competition among nations within a world-system zone, such as the semiperiphery?

The Structure of Core-Periphery Relations

The core-periphery dichotomy designates the unequal distribution of rewards among the various economic activities in the single overarching division of labor that defines and bounds the world-economy. All these activities are assumed to be integrated in commodity chains, which are made up of nodes that combine different factors of production (labor, capital, and entrepreneurship). According

to Arrighi and Drangel (1986, 11-12). "Core activities are those that command a large share of the total surplus produced within a commodity chain and peripheral activities are those that command little or no such surplus."

From a world-system perspective in which all states enclose within their boundaries both core and peripheral activities, "core states" contain predominantly core activities and "peripheral states" encompass mainly peripheral economic activities, while "semiperipheral states" are those that contain a more or less even mix of core-peripheral activities within their boundaries. This balance of core-peripheral economic activities is what gives semiperipheral states "the chance to resist peripheralization by exploiting their revenue advantage vis-à-vis peripheral states and their cost advantage vis-à-vis core states" (Arrighi and Drangel 1986, 26-27).

One of the major implications of this framework is that it allows us to disentangle the concept of core-periphery relations from any particular kinds of products, industries, countries, or regions. Peripheral states do not just specialize in traditional (resource-intensive and labor-intensive) industries, nor do core states solely contain modern (capital-intensive and skill-intensive) industries. Every commodity chain encompasses some products and techniques that are core-like and others that are periphery-like at any one time.

Mobility between Zones

Mobility from the semiperiphery to the core or from the periphery to the semiperiphery, therefore, is not defined in terms of degree of industrialization, but rather by a country's success in upgrading its mix of core-peripheral economic activities. Here the role of the state can make a real difference. World-system theory predicts that semiperipheral states will actively seek to upgrade their core-peripheral mix by protecting the core activities within their boundaries and by intensifying their competition for the core activities located outside of their boundaries. Paradoxically, however, this competition actually may be counterproductive to the extent that it turns core-like activities into peripheral ones with relatively low levels of value added, thus keeping the mix of the semiperipheral zone more or less even (Arrighi and Drangel 1986, 27).

Upward structural mobility or ascent is possible for individual semiperipheral or peripheral states that pursue a particularly innovative combination of economic policies and/or are favored by a world-economic conjuncture that gives them some strong competitive advantage. These exceptions, though, tend to reinforce the rule that mobility between the three separate zones in the world-economy is extremely difficult, in large part because the development frontier represented by the most advanced activities of the core zone is continually receding.

The exceptional nature of lasting upward or downward mobility in the world-system is dramatically illustrated by the findings of Arrighi and Drangel (1986, 44), who attempted to measure mobility in the world-system over the past fifty years. They found that 95 percent of the states that were classified in the boundaries

of one of the three world-system zones in 1938-1950 were in the same zone in 1975-1983. Among the few exceptional cases of mobility were Japan and Italy, which moved from the semiperiphery to the core, South Korea and Taiwan, which moved from the periphery to the semiperiphery, and Ghana, which moved downward from the semiperiphery to the periphery.

Competition and Mobility within Zones

Whereas studies like that by Arrighi and Drangel tend to give us a clearer picture of the limited mobility that occurs in the long run between zones in the world-system, they are not particularly useful in studying the patterns of intense competition and short-term mobility that occur within a particular zone, such as the semiperiphery. The latter kinds of issues have been of utmost importance in the comparisons of the uneven development of the East Asian and Latin American NICs during the past quarter of a century. Serious questions are being raised about whether the distinct development strategies associated with the East Asian and Latin American NICs will have a lasting impact on their industrial competitiveness, social welfare, and potential to enter the core (see Gereffi and Wyman, 1990).

While we believe that these issues of short-term mobility and change are important, they should be studied within a world-system context. The competition among the NICs, which all fall within the semiperipheral zone of the world-economy, has become especially significant in the current era of global manufacturing characterized by dramatically new patterns of international production, subcontracting, and export specialization. Increasingly the export-oriented NICs are battling one another, and core countries as well, for access to core-country markets.

In the remainder of this chapter, we will explore some of the world-system issues raised by a closer examination of the pattern of competition and mobility among the NICs in the global footwear industry. Although our focus on the East Asian and Latin American NICs during the past twenty-five years will not answer questions of long-run mobility and change in the world-system, it certainly can provide us with insights about the strategies semiperipheral states are pursuing to upgrade their mix of economic activities and also about some of the opportunities and constraints they face in the contemporary capitalist world-economy.

COMMODITY CHAINS

In the global manufacturing system of today, production of a single good commonly spans several countries, with each nation performing tasks in which it has a cost advantage. This is true for traditional manufactures, such as footwear and garments, as well as for modern products, like automobiles and computers (Gereffi 1989a). In order to analyze some of the implications of this worldwide division of labor for specific sets of countries like the East Asian and Latin American NICs, it is very helpful to utilize the concept of commodity chains.

A "commodity chain," as defined by Hopkins and Wallerstein (1986, 159), refers to "a network of labor and production processes whose end result is a finished commodity." One must follow two steps in building such a chain. First, to delineate the anatomy of the chain, one typically starts with the final production operation for a consumable good and moves sequentially backward until one reaches the raw material inputs. The second step in constructing a commodity chain involves identifying four properties for each operation or node in the chain (except for labor): (1) the commodity flows to and from the node and those operations that occur immediately prior to and after it; (2) the relations of production (i.e., forms of the labor force) within the node; (3) the dominant organization of production, including technology and the scale of the production unit; and (4) the geographic loci of the operation in question (Hopkins and Wallerstein 1986, 160-63).

The NICs are pivotal production sites in the commodity chains that cut across national boundaries and help define core-periphery relations in the world-system. However, the complexity of commodity chains for the kinds of export-oriented manufacturing industries in which the NICs are predominant today requires us to extend the model proposed by Hopkins and Wallerstein in several ways.

First, the dynamic growth of the NICs has revolved around their success in expanding their production and exports of a wide range of consumer products destined mainly for core-country markets. This means that it is extremely important to include forward as well as backward linkages from the production stage in the commodity chain. In the footwear industry a full commodity chain takes us across the entire spectrum of activities in the world-economy: the agroextractive sector (cattle for leather and crude oil as the basis for plastic and synthetic rubber inputs), the industrial sector (footwear manufacturing), and the service sector (the activities associated with the export, marketing, and retailing of shoes).

Second, the extension of commodity chains beyond production to include the flow of products to the final consumer market has important implications for our ability to detect where economic surplus is concentrated in a global industry. In the case of footwear, the comparative advantage of the NICs lies primarily in footwear production because of the relatively low labor costs in these noncore countries. A corollary of this fact, however, is that the main source of economic surplus within the footwear commodity chain, generally is not at the production stage but rather at the last stage of the chain, where service activities predominate (i.e., the marketing and retailing of shoes). Product differentiation by means of heavily advertised brand names (e.g., Nike, Reebok, Florsheim) and the use of diverse retail outlets allows core-country firms, rather than those in the semiperiphery, to capture the lion's share of economic rents in this industry.

Third, our focus on an export-oriented industry like footwear provides us with a convenient baseline for measuring the relative success of countries as they compete with one another for shares of the world market. We will concentrate on footwear exports to the United States, which is the world's largest market for manufactured consumer exports from the NICs (Keesing 1982). By mapping the

changing shares of the major footwear exporters in the U.S. market during the past two decades, we get a remarkably clear picture of competition not only among the East Asian and Latin American NICs, but also between these NICs and core-country exporters like Japan and Italy.

Figure 3.1 outlines our depiction of a commodity chain for the global footwear industry. It is composed of four major segments: (1) raw material supply; (2) production; (3) exporting; and (4) marketing and retailing. In addition, we include the major footwear export niches in the U.S. market in order to illustrate the specialized nature of the competition that occurs among the major footwear exporters.

STEPPING INTO CORE MARKETS: FOOTWEAR EXPORTS BY THE NICs

The footwear industry is a very instructive case for exploring semiperipheral mobility in the contemporary world-economy. It has been a key component of the NICs' extraordinary export success in recent years. Footwear was the top export item from South Korea, Taiwan, and Brazil to the United States throughout most of the 1980s. Although each of these countries has a very diversified profile of manufactured exports, it is notable that footwear continues to be a leading export commodity, along with more sophisticated products such as automobiles, computers, and color television sets.

The United States is the largest footwear market in the world. During the past two decades imports have steadily displaced local production within the American market. In 1967 imports accounted for 18 percent of all nonrubber footwear consumed in the United States; ten years later, in 1977, one out of every two pairs of shoes purchased in the United States was imported; and by 1987, 80 percent of all shoes bought in the United States were imported (U.S. Department of Commerce, 1989; Muti 1980).

The pattern of footwear exports to the American market shows very clear shifts. This can be seen in table 3.1, which designates with boxes the years in which the major footwear exporters to the United States had an overall market share of 10 percent or higher. Japan, Spain, and Italy were the main exporters to the American market during the late 1960s and early 1970s. In 1971 these three nations accounted for two-thirds of the \$760 million in footwear that was exported to the United States.

In 1972 the East Asian and Latin American NICs began to play an increasingly prominent role as U.S. footwear suppliers. First Taiwan, then South Korea in the mid-1970s, and finally Brazil in the early 1980s began to make major inroads into the American footwear market. By 1987 these three NICs accounted for two-thirds of total American footwear imports, thus reversing the dominance established sixteen years earlier by Japan, Italy, and Spain. The stakes were also much higher, however, since the U.S. market for footwear imports in 1987 was valued at over \$7.6 billion, an increase of more than tenfold since 1971 (see table 3.1).

Figure 3.1
Footwear Commodity Chain

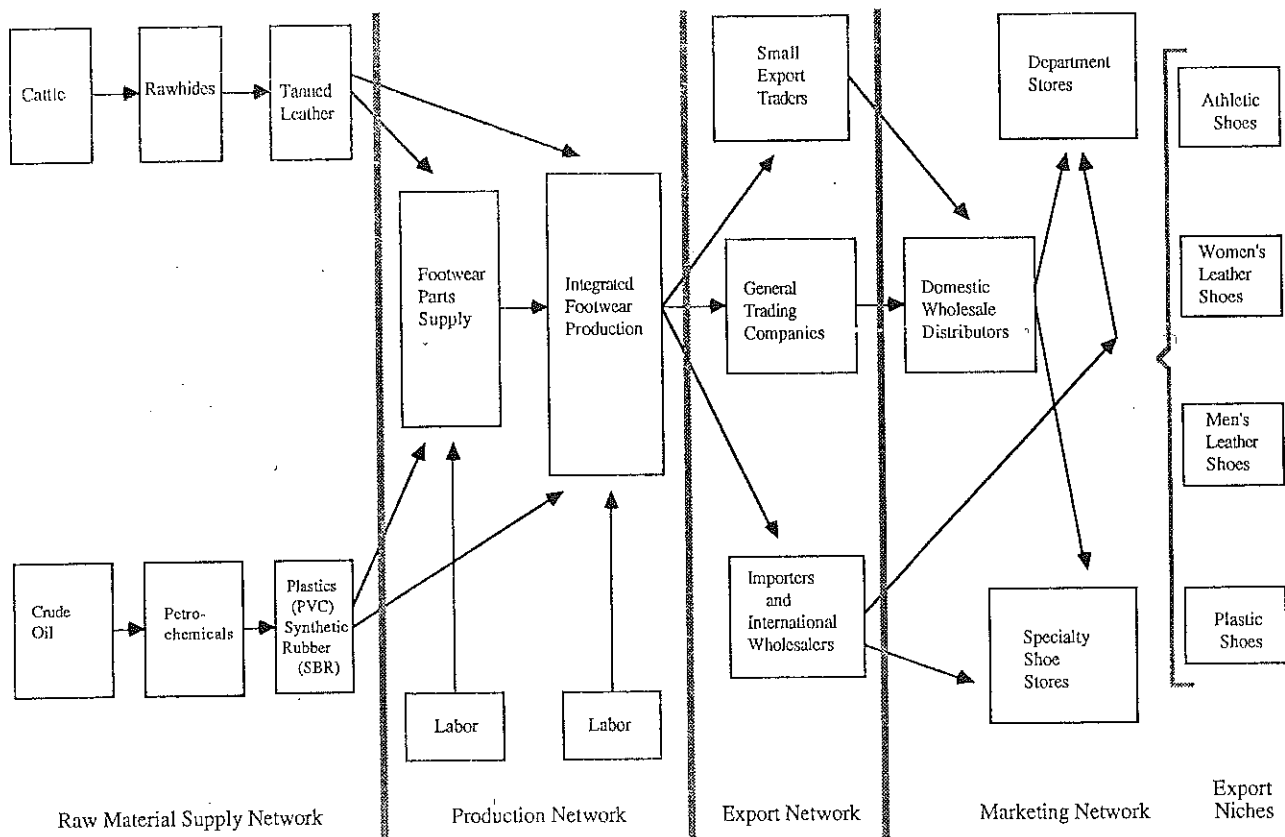


Table 3.1
Market Share of U.S. Footwear Imports from Selected Countries (SITC 851, 1967-1987)

Year	Total (thousands of dollars) ^a	Japan	Spain	Italy	Taiwan	Korea	Brazil	Hong Kong	P.R.C.	Mexico	Argentina
1967	263,220	23	9	39	3	3	0	2	-	1	0
1968	388,135	21	12	41	4	3	1	1	-	1	0
1969	488,172	17	15	41	4	2	0	1	-	1	0
1970	629,402	15	13	42	6	2	1	1	-	1	0
1971	758,095	13	17	38	9	4	3	1	-	1	0
1972	915,014	6	19	37	11	5	5	1	-	1	0
1973	1,079,166	2	18	34	13	6	8	1	0	1	2
1974	1,153,391	1	17	28	15	9	8	1	0	2	2
1975	1,301,404	2	18	26	16	10	9	1	0	2	0
1976	1,724,547	1	14	20	21	16	8	1	0	1	0
1977	1,805,824	1	12	20	24	16	7	1	0	2	1
1978	2,584,979	2	11	22	23	15	7	2	0	2	1
1979	2,859,446	1	10	28	21	13	8	2	1	2	0
1980	2,807,937	1	7	19	30	17	9	5	1	2	0
1981	3,019,374	1	7	17	27	18	18	2	1	2	0
1982	3,437,455	1	7	18	27	22	10	2	0	2	0
1983	4,009,541	1	6	17	30	21	13	1	0	1	0
1984	5,034,436	1	7	16	29	19	17	1	- ^b	1	0
1985	6,103,679 ^c	- ^b	7	15	31	19	15	2	1	- ^b	0
1986	6,472,891	0	6	14	32	23	13	2	1	1	0
1987	7,654,055 ^c	0	5	11	32	23	13	2	2	1	0

Sources: United States Department of Commerce. Various years; United States Department of Commerce. 1987.

^a Customs value except where noted.

^b Data not available.

^c C.I.F. value.

SITC signifies Standard International Trade Classification and C.I.F. means cost, insurance and freight).

This dramatic increase in the role of the East Asian and Latin American NICs in the American footwear market during the late 1970s and 1980s, a period when they displaced their Japanese and European competitors, is evidence of substantial semiperipheral mobility in a dynamic global industry. In the following sections of this chapter, we try to identify some salient aspects of the successful strategies pursued by footwear exporters in the NICs. To put this in an appropriate context, however, we first need to outline several distinctive features that affect mobility in the footwear industry.

Mobility within the world-system is tied to a country's ability to upgrade its mix of core-peripheral economic activities. In order to advance in the world-economy, countries typically strive to play a major role in those segments of commodity chains with the highest ratio of core to peripheral activities—that is, where the economic surplus is greatest.

The location of economic surplus in the footwear commodity chain is conditioned by four factors: labor, core and peripheral capital, the state, and economic organizations. First, footwear production is a relatively labor-intensive activity. Labor costs thus tend to drive the competitive strategies of footwear exporters and are a major factor in explaining geographical shifts in the industry. Relatively inexpensive labor in the NICs is the key reason these nations acquired a significant cost advantage vis-à-vis core rivals like Japan and Italy. Since labor costs in the NICs (especially in East Asia) have been rising quite rapidly, however, these semiperipheral nations have had to select export niches that allow them to economize on labor and attain higher levels of value added in the industry. This offers some measure of protection from cheap-labor footwear exporters like those in China, Mexico, and Thailand.

Second, the footwear industry forces us to take a new look at the roles of core and peripheral capital in contemporary consumer-goods export industries in the world-economy. The footwear industry is highly competitive at the international level, with little direct involvement by multinational corporations in the production and exporting of footwear. Local private capital, usually made up of small and medium-sized firms, is the principal actor in the footwear industry in the NICs. Core capital does play a significant role, however, in the distribution and marketing stage of the footwear commodity chain. Unlike capital- and technology-intensive industries where multinational corporations frequently set up facilities for overseas production, core capital shapes the growth and evolution of the footwear industry in a more indirect way, mainly as a subcontractor and buyer of footwear made to the specifications of shoe companies and retail outlets in the United States.

The available information suggests that the most profitable segment of the footwear commodity chain is the distribution and marketing of shoes rather than footwear production. The distributors' margins in the core countries are very large. In the United States these margins averaged 50 percent in the mid-1970s but were

closer to 60 percent for imported goods. In Japan "the price [of footwear] approximately doubles between the departure of the goods from the factory and their purchase by the consumer. The successive increases appear to be as follows: factory 55 percent, wholesaler 70 percent, and retailer 100 percent" (OECD 1976, 39). A similar situation seems to prevail in Europe, where distribution costs amount to at least 100 percent of the manufacturers' price. The economic surplus that accrues to footwear distributors and retailers in core countries undoubtedly is much higher when production is done overseas rather than domestically.

Third, the state so far has maintained a relatively low profile in the footwear industry in both the semiperiphery and the core, contrary to the expectation in world-system theory that semiperipheral states will play a leading role in upgrading the mix of core-peripheral economic activities. Within the semiperiphery the state has no involvement in footwear production at all (in contrast to the prominence of state enterprises in heavy or strategic industries such as steel, oil, petrochemicals, and mining). The main impact of the state on manufactured exports from the NICs is in the area of exchange-rate policies, export-promotion schemes, and protection for domestic producers. State policies in a core country like the United States are primarily important in terms of selectively restrictive trade measures such as tariffs, quotas, and other non tariff barriers that could impede footwear imports.

Until recently, state policies in both the semiperiphery and the core have fostered a rapid expansion of footwear exports from the NICs. There is a growing perception, however, that the more or less open trading environment that has been supported by core states in the postwar world-economy will become more closed. In particular, the favorable access to the U.S. consumer market on the part of East Asian manufacturers may be reduced as the geopolitical map of Asia is redrawn. An even more drastic scenario that has been mentioned is the possible emergence of regional trading blocs (Garten 1989). This would fundamentally alter the role of the NICs in the world-economy and transform the structure of export-oriented industries like footwear.

Finally, the footwear industry demonstrates convincingly the importance of looking at economic organizations and other institutions within the NICs to explain their individual patterns for export success. Footwear firms in South Korea, Taiwan, and Brazil are quite different from one another in organizational terms, reflecting their distinct national industrial structures and social contexts. These contrasts help us understand why these three nations have targeted diverse footwear export niches in the U.S. market and why their future strategies in the industry are likely to vary.

THE FOOTWEAR INDUSTRY: A COMMODITY-CHAIN ANALYSIS

Our analysis of the footwear industry will be organized around the four main segments of a commodity chain outlined in figure 3.1: raw material supply,

production, exporting, and marketing. A crucial feature of this commodity chain is that each of the segments encompasses a variety of differences in terms of the geographical locus of operations, the forms of the labor force, the technology used, and the scale and type of production unit. These characteristics all affect the distribution of economic surplus throughout the commodity chain, which is a key factor in determining the degree of mobility of semiperipheral states in the footwear industry.

Raw Material Supply Networks

There are two fundamentally different raw materials used in the production of footwear: livestock and crude oil. The former is converted into leather and other animal hides, while the petrochemicals derived from crude oil are used to make plastics and synthetic rubber for shoes.

Leather and petrochemicals are linked to distinct regional clusters of footwear exporters. Latin American and European producers have specialized in leather shoes and thus rely on tanned leather as the key input, while East Asian producers have specialized in footwear products that require synthetic materials.

The flows of raw materials into footwear production have always tended to be problematic and unstable. There are at least four different sources of instability: price, quantity, quality, and geographical origin.

The footwear industry has to cope with broad fluctuations in the price of its raw material inputs because footwear accounts for a very small percentage of the total demand for crude oil and cattle. The major sources of demand for oil are energy consumption and a wide range of finished consumer goods based on petrochemical inputs. The bulk of synthetic rubber output, for example, is used to manufacture automobile tires, with only a fraction going to shoes. Similarly, rawhides account for only about 5 percent of the total sale value of bovines; the demand for cattle is mainly determined by patterns of beef consumption, which depend on factors such as a country's caloric intake, income levels, and volume of beef exports.

The primary materials used for footwear are subject to fluctuations in the quantity of supply. Oil is a nonrenewable resource whose supply has been extremely vulnerable to political changes and control by economic cartels. The supply of rawhides and skins is dependent on so-called 'cattle cycles': Over a relatively long period of time, when the price of beef drops below a certain level, the number of bovine kills increases and the stocks are reduced. This leads to a higher price for beef and the recomposition of stocks until the cycle commences again.

While the quality of petrochemicals is generally uniform, differences in the texture, thickness, and color patterns in leather are a potential source of difficulties for footwear producers. The quality of rawhides and tanned leather is affected by a variety of factors: cattle-slaughtering techniques, climatic change, pests, and other environmental conditions. Footwear producers, and particularly those who export to world markets, need to find means to insure not only an adequate supply

of leather at predictable prices but also consistent quality, a condition that is difficult to establish with precision in leather transactions. Many Argentine producers, for example, argue that Argentine-made shoes lack international competitiveness because the best grades of Argentine-produced leather are shipped abroad (Korzewicz, 1990).

In the last two decades there have been important shifts in the geographical location of rawhide and tanned-leather production in the world-economy. Non-core countries have sharply reduced exports of unprocessed rawhides and skins, while core countries have increased them. Argentina, for example, exported 65 percent of its rawhides in 1970, but only 12 percent in 1980 and none in 1985. Brazil exported 20 percent of its total production in 1970, but none in 1980. Conversely, core countries have increased their rawhide exports. The United States exported 42 percent of its production in 1970 and 59 percent in 1980 (FAO 1983, 15-24, 55-69). The trend for tanned leather is in the opposite direction: production and exports have rapidly shifted in location from core to developing countries. In Latin America alone, exports of tanned leather increased from an annual average of US\$9.6 million in 1961-1965 to \$400 million in 1980 (FAO 1983, 122-23).

The fluctuations in the price, quantity, quality, and geographic origin of the raw materials used in footwear production create an organizational imperative for the shoe manufacturers to create stable and effective networks for the supply of raw materials. There are at least two options available to manufacturers. The first option is vertical integration. In Brazil the largest footwear manufacturers have purchased local tanneries in order to control the flow of rawhides and leather. Vertical integration of footwear producers with petrochemical firms is much less likely, given the scales involved. The second option is the establishment of stable procurement networks. The stability of these networks may rest upon personal ties, common ethnic backgrounds, and a history of previous common transactions. Footwear producers in the Vale dos Sinos area of southern Brazil, for example, rely upon ties based on common Germanic descent (Korzewicz, 1990).

Production Networks

This section will focus on the organizational characteristics and the relations of production in the three most important semiperipheral footwear exporters to the U.S. market in the past decade: Taiwan, South Korea, and Brazil. Size of firms and labor patterns are the key variables that define production networks.

In terms of size, the Taiwanese footwear industry is composed mainly of small firms, the Brazilian industry is made up of a combination of small and medium-sized firms, and the Korean industry is dominated by relatively large firms. In Taiwan the number of establishments with 500 workers or more comprised about 20 percent of the value added in the footwear sector in 1976, while in South Korea establishments of this size provided 90 percent of all value added in the footwear industry (Levy 1988). In Brazil there is a mix of both small and medium-sized

firms. In a survey of 112 Brazilian firms, 75.9 percent employed between 11 and 500 employees (qualifying as small and medium), and 27 firms, or about 25 percent of the total, were classified as large (500 employees or more) (Fadigas de Almeida 1983).

Footwear production and exports hinge upon the availability of cheap labor. There is a sharp contrast between labor costs in the footwear industries of core and semiperipheral countries. In 1987 the average hourly wage in the U.S. footwear industry was just over \$6.00, compared with about \$4.50 in Italy, but additional benefits raised the average salary for footwear workers in both countries to around \$8.00 an hour. Among semiperipheral countries, Hong Kong's average hourly wage was about \$2.00 (U.S.) in 1987, compared to \$1.20 in Taiwan and \$0.90 in South Korea. Average hourly wages in Brazil, Mexico, and Argentina were about \$0.65 (Bancomext/Secofi 1988, 69; ILO 1988, 810-71).

The evolution of labor costs in the semiperiphery between the mid-1970s and the mid-1980s shows a very interesting trend. The relative cost advantage of Latin American and East Asian countries was reversed during this period. In 1976 labor costs in the footwear industries of Brazil and Mexico were about one-fifth of those in the United States, while labor costs in South Korea and Taiwan were about one-tenth of the U.S. average. By 1987 labor costs in Brazil and Mexico had declined to about one-tenth of U.S. costs, while the salaries of footwear workers in South Korea and Taiwan rose to about one-fifth of the U.S. level (Bancomext/Secofi 1988, 69). These figures suggest that low wages are a necessary but not sufficient condition for footwear exports, given the relatively poor performance by the three main Latin American countries during the 1980s (see table 3.1).

Wages in the footwear industry are considerably lower than wages in other manufacturing sectors. In South Korea, for example, footwear wages were only about one-half of the average wage for all industrial sectors combined (U.S. Department of Labor 1986, 4).

The footwear sector extensively employs female workers whose wages and working conditions are inferior to those of their male counterparts. In Brazil the use of female labor is widespread in the export-intensive regions in the form of semilandestine "footwear ateliers," where workers concentrate on labor-intensive activities such as cutting and light stitching. In South Korea it is estimated that up to 62 percent of footwear workers are female. They earn less than male footwear workers (the wage differential of female to male earnings in South Korea was estimated at 43.4 percent in 1972), and they are typically less protected by laws that regulate extensive overtime and night work (Chang 1988, 16-21; U.S. Department of Labor 1986, 4-12). As a result of labor organizing, the wage differential by gender has become less dramatic, but it still is significant. In 1985 female footwear workers in South Korea earned \$233 per month, compared to \$273 for their male counterparts. In Hong Kong male footwear workers earned about \$384 per month, compared to \$299 for female workers (ILO 1988, 795).

In short, the organization of production networks has crucial consequences for export competitiveness and for semiperipheral mobility. Our analysis of firm size,

location, and the relations of production in the footwear sector not only helps us explain why some semiperipheral countries have been successful until now, but it also allows us to identify opportunities and constraints that semiperipheral countries may confront in the future.

The size of firms, in particular, seems to have important consequences for the capturing and consolidation of export niches. The Taiwanese producers' greater organizational flexibility permits them to be responsive to design and fashion changes in core-country consumer markets and thus to respond more rapidly to shifting consumer preferences. This may account for the relative success of the Taiwanese footwear industry in diversifying its range of footwear products.

The Korean producers' concentrated industrial structure has been enormously helpful in the mass production of athletic footwear that followed the rapid boom in the demand for jogging shoes and the entry of Nike into South Korea in 1976 and Reebok in the early 1980s (Levy 1988, 9-10). However, the Korean footwear sector as a whole has remained dependent on this one product (athletic footwear), which has shown cyclical patterns of growth. It is reasonable to assume that the relative concentration and productive rigidity of Korean footwear producers may have prevented South Korea from breaking effectively and successfully into other segments of the world footwear market.

Based on this clearly contrasting pair of productive structures, one would tend to predict a more highly diversified Brazilian industry since, similar to Taiwan, it is dominated by small and medium-sized firms and by a more flexible productive structure. But Brazil has not successfully diversified. Perhaps part of the explanation rests in the currency instability that has affected Brazil since 1984.

Export Networks

Export networks contain the different forms of export intermediation between producers in the manufacturing location and the distribution networks in the consumer markets. They describe the specific organizational forms that allow exporting firms and countries to capture segments of the world footwear market. There are two main features of export networks that help explain the success of South Korea, Taiwan, and Brazil in becoming major exporters to the U.S. market. First, the initial impulse for the creation of export networks was to a large extent a consequence of increasing demand in the core countries. Second, each country has adopted a strategy of export intermediation that best reflects its industrial structure and the composition of the product niche in which it specializes.

The initial impetus for footwear exports from East Asia in the mid-1960s originated in the decision of Mitsubishi (the leading Japanese trading company dealing in footwear) to relocate the manufacture of plastic sandals for the U.S. market from Kobe, Japan, to Taiwan and the production of all-rubber shoes to South Korea, given a long-standing Korean experience in manufacturing rubber footwear dating back to the Japanese occupation. This background and experience was crucial in the evolution of South Korean manufacturers toward the production

of vulcanized rubber and "cold-process" athletic shoes that was to become their successful niche in the 1980s (Levy 1988, 10). The main factor behind the expansion of the Brazilian footwear export industry was the increasing demand for leather shoes in the U.S. market in the early 1970s and the inability of Italy and Spain to fully meet that additional demand (Fadigas de Almeida 1983).

The shape of export networks in the NICs is closely associated with their industrial structures and patterns of product specialization. The Taiwanese and Brazilian footwear industries, composed mostly of small and medium-sized suppliers, have relied extensively on small export traders. In Taiwan the number of export traders grew from a total of 2,777 in 1973 to 20,597 in 1984. In that span of time the average value of industrial exports per trader remained virtually constant at US\$1,400,000 (Levy 1988, 8-9). Small export traders also are very common in Brazil (Fadigas de Almeida 1983).

Small export traders are typically individuals or small firms that operate as a linkage between the manufacturers in the producing countries and the retailers in the destination markets. They channel demand for export orders to local producers, oversee the subdivision and subcontracting of large orders among smaller suppliers, perform quality control on outgoing orders, and attempt to anticipate future trends in fashion and marketing in the most important core markets.

The scope of these functions changes from country to country and also within the footwear industry in each country, but small trading agents retain two basic purposes. First, they help isolate individual and small footwear producers from the potentially disruptive demands of international markets and international competition by parceling big orders among many suppliers, thereby allowing the size of firms to remain small. Second, the flexible and dynamic relationship between trading agents and small producers has permitted a greater adaptation to fashion and marketing changes in core footwear markets.

The South Korean footwear industry has relied on a far more concentrated structure of export networks. The number of export traders in South Korea has grown more slowly than in Taiwan, from 1,200 in 1973 to 5,300 in 1984. In that span of time the average value of industrial exports per trader rose from US\$2,400,000 to US\$5,200,000 (Levy 1988, 8-9).

The relatively small number of traders reflects three features that are particular to South Korea: (1) the firm size of the Korean footwear industry is itself more concentrated; (2) large and diversified general trading companies (modeled on Japan's giant trading companies, or *sogo-shosha*) are very active in South Korea's trade in manufactures; and (3) South Korea has specialized in the production of large volumes of brand-name athletic footwear, such as Nike and Reebok, which have a more direct route from production to marketing.

Distribution and Marketing Networks

The specialized footwear products of South Korea, Taiwan, and Brazil reach the final consumers through distinct marketing channels, which are the end point

of our footwear commodity chain. There are two main components to this marketing network: distributors and retailers.

In the U.S. market footwear imports are distributed by two major kinds of organizations: generic distributors/wholesalers and brand-specific distributors such as Nike or Gucci. From these two major distribution points, shoes reach the U.S. consumer through department stores and specialty shoe stores (Keesing, 1982).

Well-known upscale department stores, such as Saks Fifth Avenue, Bloomingdale's and Harrods, sell shoes to the upper segment of the American footwear market, typically Italian leather shoes. Chain discount stores such as J.C. Penney and K Mart, sell a large number of relatively inexpensive plastic and rubber footwear, manufactured mostly in Taiwan, and the low-end leather shoes that Brazilian producers make. Small specialty shoe stores generally sell either expensive, top-of-the-line shoes (such as the Gucci brand) or athletic footwear made in Taiwan and South Korea.

EXPORT NICHES AND INDUSTRIAL UPGRADING IN THE FOOTWEAR INDUSTRY

Each of the four segments of the footwear commodity chain that we described in the preceding section is a key component in the process by which semiperipheral states establish export linkages to global markets. The final outcome of this sequence is the creation and consolidation of export niches. Export niches are segments or shares of world and national markets captured by firms of a single nationality within an industrial sector.

The concept of export niches is a crucial analytical node in understanding the trajectories of semiperipheral mobility. It is closely tied to the notion of a commodity chain because it is the consequence of the specific configuration of the chain. It also is related to the broader outcomes of market penetration. Export niches help explain how South Korea, Taiwan, and Brazil captured large shares of the American footwear market by specializing in products that were well suited to their raw material supply networks and domestic industrial capabilities.

Export Niches

The total value and product shares of footwear exports to the United States by the three NICs, Italy, and the world as a whole between 1970 and 1987 are depicted in table 3.2. One of the most interesting phenomena is the shift toward athletic footwear as a growing share in overall U.S. footwear imports. The subcategory of plastic and rubber shoes increased steadily, but not as dramatically as athletic footwear, which rose from 3 percent in 1970 to 21 percent in 1987. From a \$20 million market in 1970, athletic footwear evolved into a \$1.5 billion industry seventeen years later. The shares of leather footwear, for both men and women, have declined significantly since 1970.

Table 3.2
Composition of Footwear Exports to the United States, Selected Countries, 1970-1987

Sch. A Code Description Year	Total Exports (US\$ thousands)	8510180/90 Plastic/Rubber	8510242 Athletic	8510243 Leather, Men	8510246/48/52 Leather, Women
			World		
1970	629,402	15	3	17	37
1975	1,301,404	15	9	18	34
1980	2,969,982	20	13	10	23
1985	6,103,679	19	21	11	33
1987	7,236,496	22	21	12	29
			Republic of Korea		
1970	12,965	7	5	1	1
1975	129,163	1	15	12	1
1980	472,379	1	42	3	1
1985	1,170,426	4	64	6	3
1987	1,750,700	9	57	8	3
			Taiwan		
1970	39,974	55	0	0	0
1975	206,211	53	4	4	1
1980	834,390	50	7	1	2
1985	1,886,789	50	21	4	6
1987	2,411,481	50	17	6	11
			Brazil		
1970	6,535	0	0	46	41
1975	121,578	0	0	21	75
1980	244,244	0	0	17	76
1985	935,105	0	0	13	85
1987	920,262	0	0	14	83
			Italy		
1970	267,445	4	0	23	61
1975	336,666	14	2	19	54
1980	520,560	18	2	17	53
1985	928,858	9	2	17	68
1987	852,373	9	2	19	64

Source: U.S. Department of Commerce. Various years.

The boxes in table 3.2 highlight the specialized niches for each of the four leading footwear exporters to the United States. South Korea has specialized in athletic footwear, which comprised close to two-thirds of all Korean footwear exports to the American market by 1985. Although Korean footwear producers have made inroads into other types of footwear, such as leather shoes for men, these attempts to diversify remain modest.

A consistent one-half of Taiwan's footwear exports are concentrated in the subcategory of plastic and rubber shoes. In contrast to South Korea, however, Taiwan

has shown a steady trend toward diversification into other subcategories of footwear products. It has made successful inroads into the athletic footwear segment that South Korea dominates. Between 1980 and 1985 Taiwan tripled its exports of athletic footwear to the United States. Taiwan's shoe producers also are moving into the women's leather footwear segment that Brazil has focused on. Brazil and Italy show clear trends toward product concentration in their footwear exports to the American market. About 85 percent of all Brazilian footwear exports are in the women's leather category, and over two-thirds of Italian exports fall within this same niche (which is the largest subcategory of footwear products within the *Standard International Trade Classification* [SITC] 851 product code). In terms of their shares of the U.S. market, both Italian and Brazilian producers are more concentrated in a single type of product than their East Asian counterparts.

Industrial Upgrading

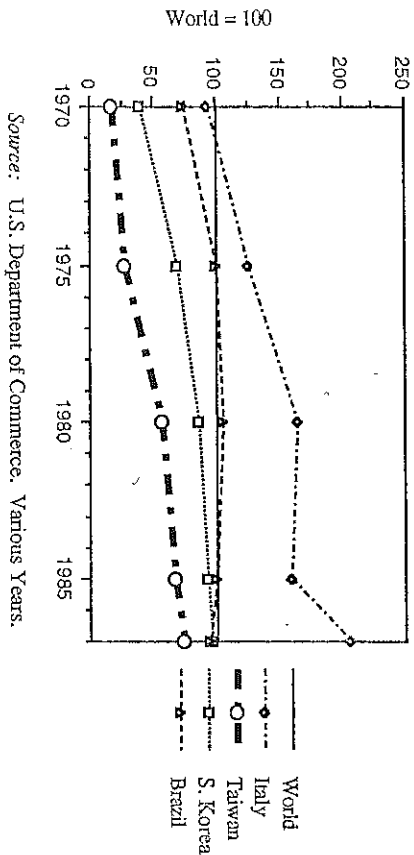
An important dimension of export niches is the unit value of footwear exports in these product markets. The size of a niche in terms of market share does not necessarily tell us about the mix of core-peripheral activities or economic surplus that it represents. This is best reflected in trends and comparisons of the average price for different kinds of shoe imports.

The unit value of American footwear imports is derived by dividing the total value of footwear imports by the quantity of shoes imported (usually expressed as pairs of shoes). This was done for each of the four main subcategories of footwear imports into the United States at five-year intervals from 1970 to 1985, plus 1987. To come up with a unit-value measure for each of the NICs and Italy that reflects the major footwear subcategories presented in table 3.2, the average unit value for each of the four market niches was weighted by the share of the niche in total U.S. footwear imports. The results of this calculation are depicted in figure 3.2 and constitute an "industrial-upgrading index" for exporters to the American footwear market.

The figure shows that all four countries have upgraded the unit value of their footwear exports, even when one controls for the growth in the average unit value of all footwear exported into the United States in these years. Between 1970 and 1987 Italy upgraded the unit value of its footwear mix well above the world average. South Korea and Brazil remained close to the world average, and the unit value of Taiwan's footwear exports was below the world average. Italy and South Korea both doubled the average unit value of their footwear exports during this period, and Brazil went up by about 25 percent, while the unit value of Taiwan's exports rose by about 450 percent, although its base value in 1970 was quite low.

An even more telling pattern emerges if we differentiate the 1970-1987 interval into two discrete periods: the first half of the 1970s and the 1980s. The trend lines show that in the first half of the 1970s, all four countries upgraded their activities at a somewhat similar rate despite the different points of takeoff. In

Figure 3.2
Index of Industrial Upgrading for Footwear, Selected Countries



the 1980s, however, the patterns diverge sharply: while the upgrading trends of Taiwan and Italy keep growing at a steady rate, the upgrading trajectories of Brazil and South Korea are relatively stagnant. In short, the “industrial-upgrading index” shows us that all four countries upgraded their manufacturing activities between 1970 and 1987, but South Korea and Brazil reached a peak around 1980, while Taiwan and Italy grew consistently throughout the 1980s.

Three Paths to the Consolidation of Export Niches

The empirical evidence presented here helps piece together three interesting “stories” about global footwear production in the 1970s and 1980s. Three semiperipheral countries—South Korea, Taiwan, and Brazil—came to dominate substantial niches of the U.S. market, whereas the other East Asian and Latin American NICs (Hong Kong, Singapore, Argentina, and Mexico) did not. However, the three countries that succeeded in capturing important segments of the U.S. market did so in different ways.

South Korean producers captured an extraordinarily dynamic market for athletic footwear at the time when the fitness boom hit a peak in the United States. South Korean producers showed an amazing ability to dominate a niche that in a few years grew to comprise about 20 percent of the overall U.S. footwear import market. On the other hand, South Korea has not diversified to a great extent into exporting other footwear products. South Korea upgraded the unit value of its footwear production mix throughout the 1970s, but there was no further increase in the average value of Korean footwear exports in the 1980s.

Taiwanese producers captured a rapidly growing market that was already in place, that of plastic and rubber shoes, and competed most directly with American

producers. In contrast to South Korea’s shoemakers, Taiwanese firms have been able to diversify their exports into other footwear sectors (particularly athletic footwear) and to upgrade the unit value of their overall footwear exports.

Lastly, Brazilian producers showed a capacity to capture a very large niche in their exports of women’s leather footwear, in effect cutting Italy’s share of this product market by more than one-half between 1970 and 1987. This is an impressive record, even if part of this outcome reflects Brazilian producers filling niches that the Italian producers abandoned by moving to higher-value shoes. In a pattern resembling that of the Korean producers, Brazilian firms upgraded their unit value from 1970 to 1980, but the “upgrading index” remained stagnant throughout the 1980s.

CONCLUSIONS AND IMPLICATIONS

What conclusions can we derive about semiperipheral mobility in the world-system from the study of the international footwear industry? Has the export success of South Korea, Taiwan, and Brazil in footwear during the past ten years moved these semiperipheral countries any closer to the core? Or has it merely helped to consolidate their position within the semiperiphery?

To answer these questions, we need to return to the notion of “core” and “peripheral” economic activities within the world-economy. The footwear industry is not homogeneous. Like all industries, footwear is stratified according to the economic value added created by different sets of producers. Italy has succeeded in capturing the upper end of the footwear market in the United States with an emphasis on expensive, fashionable leather shoes. South Korea, Taiwan, and Brazil are in the middle stratum of the footwear industry in terms of value added, with each country carrying out distinctive export niches in the U.S. market through subcontracting arrangements with well-known footwear firms. Low-wage countries like China, India, and Thailand are becoming major exporters of inexpensive shoes at the lower end of the market. Thus the stratification of national footwear exporters within the American market replicates the core, semiperipheral, and peripheral position of these countries in the world-economy.

Our focus on footwear commodity chains provides us with an additional tool for understanding the dynamics of this international industry. The footwear industry actually encompasses the full spectrum of economic activities from the agroextractive sector (cattle and crude oil as raw materials) to the industrial sector (footwear production) and the service sector (the exporting, marketing, and retailing of shoes). The amount of economic surplus in the industry varies by sector. The “core” activities with the highest economic surplus overall are at the marketing and retail end of the commodity chain, where American and European shoe companies and retailers are able to reap the profits generated by footwear brand names, control over retail chains of department stores and specialized shoe outlets, and the steady growth in U.S. consumer demand for a wide range of shoes. The “peripheral” economic activities, on the other hand, are concentrated

at earlier stages of the commodity chain, including footwear production in developing nations.

The bulk of the profits in the footwear industry thus is concentrated in the core countries. While the NICs have been extraordinarily successful in footwear production and exporting, their share of the total economic surplus in footwear has not grown proportionately. This supports Arrighi and Drangel's view that industrialization itself has become peripheralized.

This conclusion does not mean that there is no mobility by semiperipheral countries, nor that this mobility is unimportant. Our "industrial-upgrading index" showed that Italy, Brazil, South Korea, and Taiwan all made substantial gains in the unit value added of their footwear exports since 1970, although only Italy and Taiwan were able to sustain these increases throughout the 1980s. While the relative ranking of these four countries remained unchanged in value-added terms during this period, and in fact the gap between Italy and the other three nations widened considerably, each of the NICs has surpassed Italy in its share of the U.S. footwear market. The mobility we see is twofold: (1) the NICs are climbing the value-added ladder in footwear, with some countries like Japan jumping off the ladder when they are at the top, while other nations clamber to get on the lower rungs; and (2) the NICs have succeeded in capturing larger world export shares in specific product niches.

Industrialization in the world-economy is a very complex process. The footwear industry was one of the earliest export sectors through which semiperipheral nations sought to maintain or improve their position in the international division of labor. The NICs that have been successful in exporting footwear are versatile and diversified; they also manufacture and export a wide range of technology-intensive products, such as computers, automobiles, and industrial machinery. International competitiveness in the semiperiphery has spread from traditional to more sophisticated goods.

Whether the East Asian and Latin American NICs will get closer to the core countries, or whether any of them will actually enter the core, ultimately depends on their capacity for technological and institutional innovation and their ability to adjust to the changing opportunities and constraints in the international political economy. What succeeded in the past is no guarantee for the future. The openness of the U.S. market has been a key factor in the rapid economic growth of all the export-oriented NICs, especially those in East Asia. Continued easy access to the American market is very much in doubt, given the staggering trade deficits that confront the world's leading core nation. For semiperipheral countries to ascend in the world-economy, they will have to find new ways to move to the most profitable end of commodity chains. This requires a fundamental shift from manufacturing in the semiperiphery to marketing in the core, a daunting task indeed.

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4

STATE, MARKET, AND AGRICULTURE IN PINOCHET'S CHILE

Walter Goldfrank

The fascist solution of the impasse reached by liberal capitalism can be described as a reform of the market economy achieved at the price of the extinction of all democratic institutions, both in the industrial and in the political realms.

Polanyi 1944, 237

In *The Great Transformation* Karl Polanyi accounts for the rise and spread of European fascism—in which the state assumed a perversely protective role vis-à-vis the market—in terms of the interwar crisis of the world-economy and a paralyzing stalemate of the class struggle. Roughly speaking, his orientation serves to frame the rise and spread of military-led bureaucratic-authoritarian regimes in the Southern Cone of South America, starting with the Brazilian coup in 1964 and culminating in Argentina in 1976. In each of the four cases, import-substituting industrialization as a mode of insertion in the world market had reached a crisis expressed most visibly in uncontrollable inflation. In each, the organized power of the working class, exercised through unions and parties, had reached a point at which it threatened—but fell well short of being able to dislodge—the prerogatives of capitalists and their allies. In each, military regimes seized power in the names of national security and national salvation—General Pinochet was recently chastised by two bishops for comparing his defeat in the 1988 plebiscite to the crucifixion of Jesus Christ. In spite of nationalist rhetoric, however, each military regime increased significantly the roles of multinational capital and international financial institutions. Economic reorientations toward neoliberalism, weakest in Brazil and strongest in Chile, were accompanied by states of siege, ferocious political repression, and severe restrictions on the organization of labor. In a sense, Polanyi's formulation was reversed, in that the antidemocratic methods of fascism were applied so that market mechanisms could have wider rather than

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**SEMIPERIPHERAL STATES
IN THE WORLD-ECONOMY**

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STUDIES IN THE POLITICAL ECONOMY
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