

# Comparative Analysis of Economic Development in Colonial and Post-Colonial Egypt and Korea

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The paper compares the economic development experiences of Egypt and (S)Korea during the colonial and post-independence periods. It shows that the two most important requirements of modernization are: first, an external condition related to the crucial role that global and regional powers play in promoting or hampering the developing country's efforts to modernize. The second is an internal one showing that a strong government is usually more efficient in carrying out successful economic policies than a soft one. This is especially true during the early stages of industrialization.

*Keywords:* Great powers politics, British/Japanese colonial policies, Strong/soft government, Efficient bureaucracy, Quality of factors of production, General Park, Colonel Nasser, Inculcation of modern values

*JEL Classification:* O1, N4, F5, O57, P5

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[**Seoul Journal of Economics** 2014, Vol. 27, No. 3]

## I. Introduction

The modern history of the Middle East and East Asia is rich in terms of the number of attempts at modernization. Unlike economic successes in East Asia, most attempts in the Middle East have ended up in failure. The disparity in the economic performance between the two regions has sparked fierce debate among scholars and policymakers. Presently, students of modernization are privileged to have a wealth of developmental legacies in many countries to examine. Yet, there is no serious study that provides a detailed analysis comparing modernization attempts in East Asia with those in the Middle East. This work is undertaken to overcome the lack of attention to comparative studies.

In this article we will compare the political economy of modernization through the long lens of history in Egypt and Korea. There are three main reasons for choosing these two nations for comparison. First, for long, these two traditional societies had been isolated from interaction with modernizing forces. This was true for Egypt for the period under the Mamlukes and the Ottoman Empire (1517-1798). Korea was called Hermit Kingdom due to its isolation for five centuries (1392-1910) under the Yi dynasty. Culturally, Egypt was heir to Islamic conservatism and Korea to Confucian conservatism.

Secondly, Egypt and Korea are both resource-poor. At the dawn of the twentieth century, these two countries had similar cultivated land endowments. In addition, the size of their populations was also similar (Table 1). This allows for a 'controlled' study.<sup>1</sup>

Thirdly, by the first decade of the last century, both nations were already occupied by foreign troops, Egypt by the British in 1882 and Korea by Japan in 1910. Egypt gained its independence in 1954 and Korea was liberated and divided between North and South in 1945.

One major objective of this paper is to compare the changes in the quality of the factors of production in Egypt and Korea during the colonial period and study the effects of these changes on the two nations' post-independence economic development trajectories.

It is interesting to note that in the last quarter of the 19<sup>th</sup> century,

<sup>1</sup>One astonishing similarity between Korea and Egypt was the almost identical description of the "natives" by Westerners. In the eyes of the foreign observers the indigenous population of both nations seemed to be peace-loving and friendly. They were also physically fit, capable of hard work, but they tended to be rather lazy and were prone to the display of cowardly behavior!

**TABLE 1**  
YEAR 1900

	Korea	Egypt
Area (square miles)	86,360 <sup>a</sup>	363,000 <sup>b</sup>
Arable land (square miles)	< 21,590	15,000
Cultivated Land		6m.feddans <sup>c</sup>
Population (Millions)	12.5	11.6

Notes: a) Korea's landmass is equal to the states of Michigan and Indiana combined.

b) Actual living area is less than 5% of the total surface of the geographical Egypt. The rest is desert.

c) One Fadden = 1.038 acres = 4,300.833 square meter

Egypt was *superior* to Korea in terms of the quality of the factors of production. This was because of two previous modernization attempts initiated by the national government in Egypt before the British occupation. The first was by the father of modern Egypt, Mohamed Ali (1805-1848) who wanted to establish the country as a regional power. The second was by Khedive Ismail (1863-1879), who strove to make Egypt part of Europe. The two attempts were *aborted* by the European powers, defeating Ali's ambitious naval fleet in 1840, as well as forcing Ismail to resign for his irresponsible over-borrowing.<sup>2</sup>

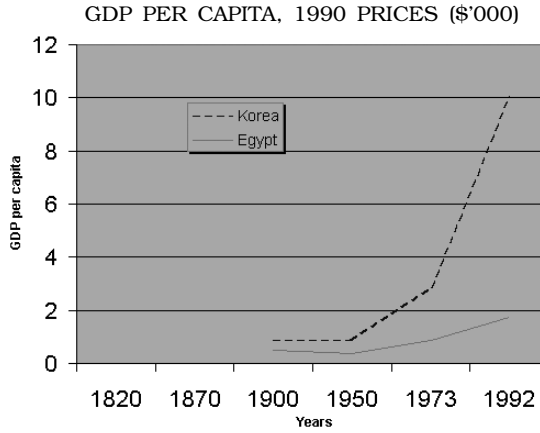
At the end of the twentieth century, there was a wide gap between that two nations per capita income (Figure 1).

Table 2 makes clear that South Korea's per capita income was more than six times that of Egypt in 2001.<sup>3</sup>

<sup>2</sup> The leaders of the Restoration Movement in Japan were keenly aware of the political developments in Egypt. First, they were admirers of Egyptian attempts at modernization under Khedive Ismail. But later such admiration was replaced by disdain for the deterioration of the country's conditions which led to its occupation by Britain Michael Penn, "Egyptianizing Korea, the Role of Egypt Analogy in Meiji Political Thought" *Workshop in Colonialism Compared: Japan and Israel with Special Reference to Korea and Egypt*, Tokyo, February 5, 2005"

In 1886 in his way to Europe. Takeki Tani, Meiji Minister of Agriculture and Commerce, stopped in Ceylon to meet Ahmed Orabi, the nationalist Egyptian leader who was exiled by the British after their defeat of his revolt in 1882. The defeat ushered the beginning of the British colonial presence in Egypt. The encounter provided the Japanese minister with firsthand knowledge of the fate of non-Western leaders who dare to defy the British hegemon.

Takeki TANI was accompanied by his secretary, Shiro Shiba, who later wrote (under the pen name Takai-Sanshi) a political novel called *Kaiin no Kigu* which is considered one of the most outstanding works of Japanese literature in early 20<sup>th</sup> Century. I am indebted to Manabu Shimizu for this point.



Source: Based on Angus Maddison (2004). Because the quality of the factors of production in Egypt was higher than that of Korea at the turn on the 20<sup>th</sup> century, it stands to reason that the above Figure underestimates Egypt's GDP per capita in the early years.

**FIGURE 1**

**TABLE 2**

	GDP (billion \$)	Per Capita income (\$)	Population (million)
	2001	2001	
Egypt	97.5	1,404	70.6
South Korea	420.0	9,050	48.6

Sources: For Egypt, GDP and Per Capita, from World Development Indicators database, World Bank, April 2002; Population. Available at: [http://www.capmas.gov.eg/eng\\_v/news/populationestimatedinandout2.htm](http://www.capmas.gov.eg/eng_v/news/populationestimatedinandout2.htm). Population, from The World Factbook. Available at: <http://www.cia.gov/cia/publications/factbook>

Next, we analyze the changes in the quality of the factors of production in the two countries during the colonial period.

## II. The Colonial Period

In comparing the changes in the quality of production during the colonial period in Egypt and Korea, we will focus on the quality of human

<sup>3</sup> In 2013, per capita income was \$32,800 in S. Korea and \$ 6,700 in Egypt (Oneki.Com).

capital, quality of land, quality of entrepreneurs and the inculcation of modern values.

#### A. *Quality of Human Capital*

In economic theory, the entrepreneur is the major organizing factor of the process of production. Yet, in guided capitalistic economies and in many authoritarian regimes,<sup>4</sup> the top government machinery initiates policies and control the decision-making process. This is particularly true during the initial stages of development. Thus, the bureaucratic elite in charge of economic policy making must be considered a 'factor of production' in its own right.<sup>5</sup>

In Western economic writings, the economic acumen of top political leaders and the quality of civil services receive little attention. This neglect must be addressed in order to gain better understanding of the process of modernization in most non Anglo-American countries.

In the following, we focus on the important issues of top leadership and bureaucracy. The reason for making a distinction between them is that an efficient bureaucracy alone cannot implement rational policies unless it is supported and *protected* by the apex of the political hierarchy.

##### a) Top Leadership

The policies of the colonial administrators in Egypt and Korea provide a window on British-style liberal imperialism and Japanese-style illiberal imperialism. The quality of British top officials in *laissez-faire* Egypt was different than that of their Japanese counterparts in *dirigiste* Korea. It is in the latter where government intervention in economic affairs was more strongly felt.

In analyzing economic development in Egypt and Korea it is important to examine the capabilities of policy makers to translate modernization objectives into reality. As the next discussion will reveal, the top leadership in Korea was better equipped to handle the challenges of material progress than their British counterparts in Egypt. While there is no doubt that under the British, Egypt had benefits of relatively honest colonial administrators, the economic development in the country was

<sup>4</sup> Colonial systems are based on coercion. Thus, they represent extreme cases of authoritarian rule.

<sup>5</sup> Mediocre government policies could result in situations where government contribution to the total value added might be negative.

severely constrained by an economic system that evolved in such a way that kept the majority of Egyptians excluded from mainstream economic activities. In Korea, on the other hand, there was a hierarchical colonial bureaucracy, skillful in mass mobilization, and standing ready to apply the lessons of Meiji economic modernization.

The main thesis presented here is that, due to the presence of a strong colonial government in Korea, the quality of the factors of production was higher than in Egypt, which had a soft government. Next we explore the reasons behind the strong colonial administration in Korea, compared to the soft British one in Egypt.

#### (1) Degree of Commitment

A comparison of the geopolitical factors that led to the actual occupation of Egypt and Korea strongly indicates that British interest in Egypt was not as intense as that of Japan in Korea. For the British, the main concern was to secure navigation in the Suez Canal — a vital artery of trade with India.<sup>6</sup> Supplying Lancashire textile mills with Egyptian cotton was an important factor, but not the paramount one.

For Japan, Korea was more than just a colony that would supply rice to the growing Japanese population-important as this was. Tokyo strategists considered it imperative to control Korea in order to protect the Japanese southern flank from the encroachment of imperial powers. Furthermore, the Meiji leaders, inspired by their success in modernizing Japan, were eager to repeat the same experiment in their colonies. Thus, while, there might have been an element of reluctance in the British occupation of Egypt, Japan was full of enthusiasm for its newly acquired colonies and, as the rising imperial power in the East, it was determined to squarely face its responsibilities.

#### (2) Capabilities of the Colonial Leadership

The overarching consideration for both London and Tokyo was never to surrender imperial control. Thus, in reality both the British administration in Egypt and the Japanese administration in Korea represented authoritarian regimes. Until 1919, absolute authoritarianism was exercised in the two nations. Both the Pro-Consul<sup>7</sup> in Egypt and the

<sup>6</sup> An observer notes, “the British slipped from free trade guarantor for like-minded countries to empire *by accident*. The very term ‘gunboat diplomacy’ shows that Britain did not want to be dragged into costly imperial wars. It preferred to sit off a coast, using naval power ideally as a credible threat in order to ensure the cooperation of the locals.” After the British shelled Alexandria in 1882, however, they stepped ashore “*in effect to create a colony*.” Financial Times (2003).

<sup>7</sup> Later titles for the top representative of the British government before 1936

Government-General in Korea acted in the tradition of absolute monarchs. They were not only heads of administration, but also the undisputed lawmakers.

The year 1919 was watershed in the two countries because both witnessed nationalistic uprisings against the presence of foreign troops.<sup>8</sup> It was largely in reaction to these disturbances that the colonial leadership tried to implement policies that best could be described as relative authoritarianism, ebbing and flowing depending on the security environment in each country.<sup>9</sup>

Authoritarianism is not necessarily synonymous with strong government. Labeling colonial administrations in Egypt and Korea as authoritarian systems does not necessarily mean that both had the same type of governmental rule. Korea had a strong government but Egypt did not.<sup>10</sup>

The hallmark difference between post-1919 Egypt and Korea is that the British acquiesced to the introduction of *political* "reforms" whereas the Japanese focused on *economic* modernization. In 1923 Egypt was granted nominal independence<sup>11</sup> and the country had a multi-party system. In reality, however, Egypt had only a thin veneer of democracy. As in other British colonies, the proceedings of the legislative authority were given publicity and surrounded "with an imposing ritual."<sup>12</sup> Telling is the following remark made in a speech made by Lord Cromer as he stated that "movement in favor of a rapid development of Parliamentary institutions should be treated for what it is worth; and, gentlemen, let

included British Agent, Consul-General and High Commissioner.

<sup>8</sup> One reason that heightened emotions for political independence in many colonies was President Wilson's advocacy of the principle of self-determination.

<sup>9</sup> In the case of Egypt, martial law was imposed intermittently and the British did not hesitate to challenge the constitution. After a period of relaxation in the 1920's in Korea, the government in the late 1930's carried out cultural policies aimed at eradicating Korean identity and making Koreans loyal subjects of the emperor.

<sup>10</sup> Lord Cromer was the most powerful British Pro-Consul in Egypt. The authoritarian official ruled the country from 1883 to 1907. He was considered by many in England as the one who brought "prosperity" back to Egypt. His achievements included balancing the budget and improving agriculture. Yet during his tenure, the quality of human capital in Egypt deteriorated rapidly because of reduced spending on education and health.

<sup>11</sup> In 1936 the Anglo-Egyptian Treaty was concluded and the title of the British top official changed from a High Commissioner to Ambassador. It was only in 1954 that the British troops left Egypt.

<sup>12</sup> E.W. Evans (1950).

me add that it is *worth very little*<sup>13</sup>." Thus, what was called a 'representative' governments in Egypt in no way signaled the arrival of true democracy. It was simply a façade covering authoritarian rule, as the strings of power continued to be pulled by the British from behind the scenes.<sup>14</sup>

In Egypt, elections did not a democracy make. The country had a succession of mostly inept governments with a high turnover rate. This was a result of the presence of three centers of power, the palace, the political parties and the British. The British tolerated the palace intervention in changing cabinets as long as it did not threaten their position of power.<sup>15</sup>

On the other hand, after the March 1919 Movement in Korea, the Japanese, emphasized economic reforms in the form of industrialization. Tokyo was serious in its efforts to introduce light industries in 1920's and heavy industries in the 1930's. In Korea, there was no room for political musical chairs. The government firmly remained in Japanese hands.

In explaining the different post-1919 policies in Egypt and Korea, three reasons could be advanced. First, unlike the Japanese system of guided capitalism, the British *laissez-faire* approach was not conducive to direct government involvement in economic affairs. Secondly, historically British imperialism started well *before* the country reached the zenith of its industrial prowess. In contrast, Japanese incursion in colonial activities took place immediately *after* it had garnished the early fruits of industrialization. Another advantage of being a latecomer was Tokyo's active solicitation of advice from diverse European colonial experts. The result was that Japan was able to come up with a colonial administrative structure that, in many ways, was more modern than the relatively antiquated British one.

Thirdly, it should be stressed that since the last quarter of the nineteenth century, England was started to *decline* as an economic power

<sup>13</sup> J. Alexander (1911).

<sup>14</sup> According to an American expert, "Although Egypt is now theoretically 'independent,' *the ultimate basis of authority rests securely on the majesty and might of the Empire ... the situation is intricate, complicated, and anomalous.*" Erdman Harris (1932, p.11).

<sup>15</sup> A good example of British heavy-handed policy was the February 4, 1942 ultimatum by ambassador Lampson to King Farouk. Its purpose was to force the court to appoint a pro-British cabinet when the country was under the threat of a German attack during WWII. Artemis Cooper (1995).



whereas Japan was a *rising* one.<sup>16</sup> The success of Japan was due to the government's ability to implement credible industrial policies. England on the other hand did not have the instruments that would allow it to arrest the decline in its own economy. To a large degree, the colonial economic policies practiced in Egypt and Korea reflected this reality.<sup>17</sup>

In the non-economic arena, unlike the situation in Korea, the presence of the British was a crucial factor in the affirmation of Egyptian identity, the creation of a relatively free press and the flowering of literature and arts.<sup>18</sup>

#### b) Bureaucracy

In comparing the quality of the Japanese and British bureaucrats, special attention must be paid to the differences in their social and educational backgrounds. The British officials tended to be recruited from an upper-class background whereas the Japanese system was much more based on meritocracy. Most of the former were graduates from Oxford and Cambridge with the latter graduating from Tokyo Imperial University.

The British Oxbridge officials who joined the colonial service were basically "generalists." The majority was educated in the classics and languages. They were "broadly educated and able on the basis of background, general knowledge, and manly virtues to carry out manifold

<sup>16</sup>In the year 2001, the per capita incomes of England and Japan were \$23,700 and \$32,600, respectively. Japan 2003 (2003, p. 17).

<sup>17</sup>Industrial development in England developed in the bosom of the private enterprise. As a pioneered country, this development took a long period of trial and error to master the necessary technical knowledge. In the words of Mountjoy, the evolution of British industrialization happened "in a bumbling *haphazard* way." It was a result of where "a series of favorable factors and circumstances converged (expanding overseas trade, the growth of both men and institutions of commerce and credit, the surge of science and inventions becoming increasingly applied to a wide resource base)." Alan B. Mountjoy (1967, p. 81).

Japan, as a latecomer, was able to speed up the process of industrialization through deliberate government actions. It successfully adapted western techniques to western conditions. The colonial administrators were able to squeeze Korean modernization into a shorter span of years. This is why many scholars treat the Korean economic trajectory as a compressed form of Japanese development.

<sup>18</sup>Constantine Cavafis (1863-1933), the most original and influential Greek poet of the last century, worked as a special clerk in the Irrigation Service of the Ministry of Public Works in Alexandria, Egypt. A Nobel laureate is Nagib Mahfouz who, notwithstanding being an ardent nationalist in his youth, communicated to the author in 1984 that he admired the relative freedom enjoyed by the educated elite under British rule.

duties.”<sup>19</sup> Many did not serve for long period and there was a continuous flow of mostly *untrained* men recruited from England. A perennial obsession of Whitehall was to maintain its colonial presence with a minimum commitment of British personnel.<sup>20</sup>

In contrast, the *high* quality of Japanese bureaucrats is exemplified by the fact that joining the upper ranks of the bureaucracy required the passing of an extremely competitive civil service examination.<sup>21</sup> Meiji Japan had emulated the German model of civil service, with minimal changes. Following the Prussian techniques of administration, science was an integral part of the curriculum at Tokyo Imperial University. The rigorous training of this intellectual aristocracy also included the study of “the science of social policy.”<sup>22</sup> Tokyo University, originally designed as a training school for civil bureaucrats, consisted of colleges of law, medicine, engineering, literature, and natural sciences.<sup>23</sup> Thus, the colonial administration in Korea, which mostly mirrored its counterpart in Japan, included a large number of well-trained bureaucrat - specialists. Furthermore, many of these specialists had prior expertise in Japan itself. These bureaucrats, who were both feared and respected, enjoyed tremendous power.<sup>24</sup>

Table 3 shows the breakdown of the Japanese experts, including, bureaucrats, in all sectors of the Korean economy in 1930.

Undoubtedly, the presence of a substantial number of Japanese experts in Korea had salient effects on the quality of human capital in the

<sup>19</sup> Bernard S. Cohn (1966, p. 138).

<sup>20</sup> For many British colonial officials, Egypt’s appeal was strong. The country was overstaffed by British officials when compared with other British colonies. For example, in the year 1919, India had a population of 300 million and Egypt had 13 million. The number of the British officials serving in India was less than 5,000. On the other hand, there were 1,671 officials in the Egyptian Service. McPherson (1983, p. 74, footnote).

<sup>21</sup> The failure rate for the administrative section of this exam averaged 90% in the period 1928-43. Source: Masamichi Inoki (1964).

<sup>22</sup> Robert A. Scalapino (1964).

<sup>23</sup> Of the 1,264 higher officials in office in 1937, 930 were Tokyo University graduates and 588 of them were graduates of the Law Department. This leads some to speak of the Monopoly of Law among civil officials in Japan, as in Germany. While it is a fact that lawyers dominated 46.5 percent the civil service bureaucracy, this leaves 53.5 percent of top civil officials being graduates of other fields, mostly in engineering and natural sciences.

<sup>24</sup> The Japanese phrase, *Kanson minpi* (officials revered, citizens despised), aptly described the bureaucratic dominance of prewar Japan. There is no reason to assume that the situation in colonial Korea was different from Japan itself.

TABLE 3

	Managers, technicians, and middle and upper level bureaucrats	Semi-skilled and unskilled workers	Total
Primary industry	1,240	26,148	27,388
Secondary industry	1,049	22,687	23,736
Tertiary industry	43,520	133,535	177,055
Total	45,809	182,370	228,179

Source: Mitsuhiro Kimura (1994, p. 42) based on information published in 1934 by the Government-General of Korea.

country.<sup>25</sup>

### B. *Quality of Land*

In the area of Korean agriculture there were two major capital-intensive projects carried out by colonial Japan.<sup>26</sup> The first was the establishment of the Oriental Development Company in 1908. The second was the mammoth undertaking of the land survey between 1910 and 1918. Except for these two projects involving large lump-sum investments, the Japanese agricultural reforms emphasized labor-intensive methods. These methods were introduced by skillful administrators and technicians at the grass-roots level.

To modify the peasants' conservative attitudes, two policies were used: the first was voluntary in nature based mainly on education and the second had an element of coercion that at times involved police intervention.<sup>27</sup> Both these approaches were used successfully by a determined colonial administration having the wherewithal to implement radical changes.<sup>28</sup>

In general, education played an important part in increasing the

<sup>25</sup> It is also true that the intensive Japanese presence was not welcomed by large segments of the Korea population. Like most colonial subjects, they lamented their lack of freedom and resented not being treated as first class citizens.

<sup>26</sup> In Korea, farms of "five thousand-old poverty (was) symbolize (d) with a kerosene lamp under a thatch roof," Sang Ho Choi (2002, p. 54).

<sup>27</sup> In addition to maintaining law and order, the police duties included checking corruption tendencies down to the village level.

<sup>28</sup> The colonial administrators effectively employed mass mobilization techniques. Used properly, these constituted an important tool in spreading useful information to the public *en masse*.

quality of the human capital.<sup>29</sup> In the case of agriculture, rural schools not only imparted new practical information about soil cultivation, but also inculcated new working habits including respect for manual labor. The police force was also an instrument that the state occasionally used to get the farmers to change their ways (*e.g.* adoption of new rice seeds) and to make sure that government directives were strictly followed.

In terms of institutional developments, two quasi-government institutions were created to develop detailed agricultural plans at the national and local levels. These two highly developed organizations were: the Korean Agricultural Associations (KAA) and the Federation of Financial Credit Associations (FFA).

The KAA promoted the purchasing and distribution of seeds and fertilizers, in addition to being responsible for providing farm equipment. It also marketed agricultural products. The KAA had large staff of 15,000 including 300 persons on the national level, 60 government technicians in each province level and around 50 technicians at the county level. It employed a large number of officers and clerks to administer the provisions and supplies. One of the most interesting features of the KAA policies was the existence of about five agriculturists in each village. It also had a leader-training program. The agency was financially self-sufficient; it covered all its expenses, including the cost of the widely — traveled province technicians.

The FFA supplied credit to farmers for short periods when there was a shortage of operating capital. The number of employees working on farm credit was substantial, reaching 3,897 in 1938.<sup>30</sup> Experts agree that the provision of extension and credit services was “simple, direct and enforced.”<sup>31</sup>

The existence of large numbers of government employees working in the above agencies is an indication of the thorough involvement of the Japanese in carrying out agricultural reforms. Regarding mechanization, the small size of the typical Korean farm and a lack of funds were two factors constraining the use of large machinery. Consequently, the technology transferred was basically of the *labor-intensive* kind.

The government’s efforts to encourage the use of improved tools proved quite successful.<sup>32</sup> The rapid acceptance of such methods by the gener-

<sup>29</sup> For a long-term statistical study on the relationship between education and economic development in colonial Korea, see Yoshihisa Godo (2005).

<sup>30</sup> Robert B. Morrow and Kenneth H. Sharper (1970, pp. 12, 55).

<sup>31</sup> Morrow and Sharper, *op. cit.*, p. 12.

<sup>32</sup> Lee (1936, p. 209).

ally conservative and obstinate farmers is rather astonishing.<sup>33</sup> Three factors explain the popularity of the new methods. First, the improvement was gradual and the new technology was simple enough to be handled by traditional farm labor. Second, massive educational efforts were launched to train the farmers in the use of new methods. Third, the low cost of the new tools allowed their fast adoption. In short, a high degree of the increase in agricultural productivity in Korea was due to the improvement in the efficiency of human capital through education, improved tools, and the introduction of better organizational methods.

The case of Egypt represents a completely different picture. The reforms were essentially *capital-intensive*. The major ones were land reclamation and the modernization of the irrigation system through the building of barrages and dams. The latter resulted in a widespread extension of perennial irrigation after the construction of the Aswan Dam in 1902. Private foreign banks were heavily involved in extending credit for land reclamation and land purchases in Egypt.

Egypt, however, did not have an institutional framework capable of providing farmers at the grass-roots level with extension services. Whatever scattered improvements introduced, were entirely due to the private initiatives of some rich landlords.<sup>34</sup>

Nothing else illustrates the difference between colonial Korean and Egyptian agriculture better than a comparison between the implements used by the farmers. The Japanese put a tremendous emphasis on introducing new inexpensive simple devices and improving the quality of the implements used. As a result, the Korean farmer had a list of over fifty kinds of farm tools.<sup>35</sup> In contrast, his Egyptian counterpart

<sup>33</sup>In 1929, Korean farmers used 5,531 gasoline power engines which could produce 24,999 horse power, 22,362 water pumping machines, 56,994 improved plows, 6,476 bean-cake crushers, 513,050 rice threshing machines, 81,960 rice hulling machines, 5,660 rice polishing machines, 73,954 winnowing machines, 28,960 milling machines, 23,757 straw-cord winding machines, and 291,751 straw-mat weaving machines, Lee, *op. cit.*, p. 209.

<sup>34</sup>One characteristic that Egypt and Korea shared was the quantum leap in the use of fertilizers. In Egypt, this was due to efforts of the government and some landlords. In Korea, the farmers had access to over twenty kinds of manures and fertilizers. There were homemade manure as well as market purchases of ammonium sulphate, bean cake, calcium phosphate, and ashes.

<sup>35</sup>Other than the traditional village-made tools such as shovels, plows, *chike*, bamboo rakes, there were more advanced devices that included improved plows, gasoline-power engines, water-pumping machines, bean-cake crushers, rice thre-

continued to use the same crude implements inherited, "unchanged" from Pharonic times.<sup>36</sup>

### C. *Quality of Entrepreneurs*

Foreign residents in Egypt enjoyed a privileged legal status; the result of a capitulation agreement which gave them preferential treatment. The agreement allowed the foreigners to be tried in their own Consular courts.<sup>37</sup> After the British occupation, foreigners settled in Egypt in great numbers. The poor economic conditions in the southern Mediterranean countries at the turn of the century made Egypt an attractive alternative for a sizable number of Greeks and Italians. Many Christian Syrians fled the oppression of the Ottoman rule to Egypt. Additionally, from the Ottoman Empire came many Armenians and Jews. All of these groups preferred to acquire non-Egyptian citizenships. This also was the preference for many of the indigenous Jewish population. Unlike Korea, where the Japanese represented the majority of foreigners, the British civilian community in Egypt was comparatively small.

Another difference between the Korean and Egyptian case was the degree of foreigner dispersion throughout the country. It was much higher in Korea than in Egypt. In the latter, most of the foreign community was concentrated in the governorates of Alexandria, Cairo and the Suez Canal area.

In Egypt, practically all of the entrepreneurs in the modern sectors were not Egyptians. One of the most important differences between colonialism in Korea and Egypt was the intensive direct contacts between the foreigners and the indigenous population in Korea, with the situation being the opposite in Egypt. In the workplace, Egyptians had very little contact with foreigners, which meant that they had scant exposure to the modern sector. The reasons for this lack of contact were:

shing, hulling and polishing machines, winnowing machines. They also had straw-cord winding and straw-mat weaving machines.

<sup>36</sup> They mainly consist of the *fas* (hoe), the wooden plough pulled by a *gamoussa* (water buffalo) paired with a camel, and the *sakia* (water wheel). Bent Hansen (1968, p. 191).

<sup>37</sup> The Japanese were deeply interested in the management of the Mixed Court system in Egypt. In the 1890's, London urged Japan to adopt the same system in the amendment of unequal treaties between European and American powers on one hand, and Japan on the other. This advice, however, was never carried through.

TABLE 4

	Egyptians	British	French	Italians	Turks	Greeks	Belgians	Others
Male	2.19%	90.3%	82.3%	87.0%	84.6%	90.1%	99.1%	87.2%
Female	0.36%	78.9%	68.7%	78.9%	64.9%	72.6%	94.2%	75.1%

Source: Ministry of Finance (1927, 1928).

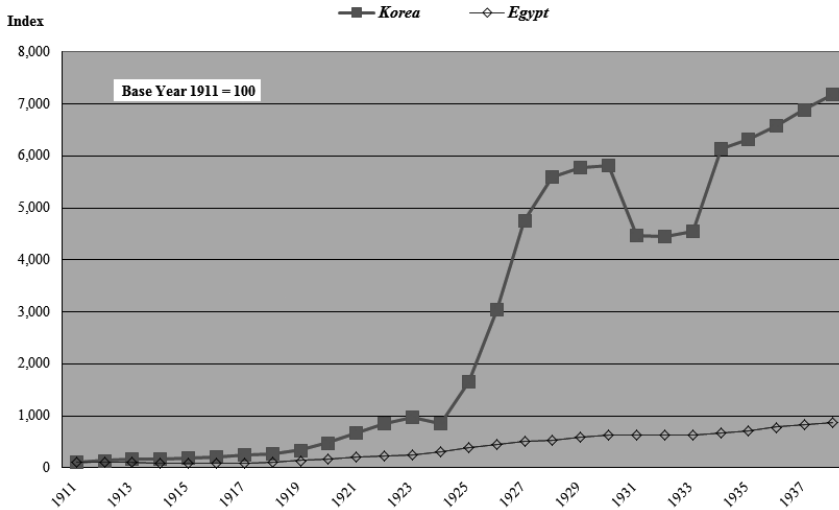
- a) The large number of foreigners in Egypt made it possible for certain groups to dominate specific business enterprises.<sup>38</sup>
- b) The high rate of illiteracy among Egyptians meant that few could read or write, let alone speak French or English — the languages of business in Egypt. The rate of literacy among the different population groups in 1927 Egypt is given in Table 4.

While there is no doubt that the quality of human capital among foreigners in Egypt was high, the practical lack of interaction between them and Egyptians resulted in a foreign presence that was ineffectual in imparting modern skills among the people at large. The following comparison is telling. In 1927, after 45 years of British occupation, the rate of literacy was 2.19% and 0.36% among Egyptian males and females respectively. In contrast, the rate of literacy in Korea in 1945, after 35 years of Japanese occupation, was 25%.<sup>39</sup> Figure 2 shows the spending on education during the colonial period in Egypt and Korea. The wide gap in the difference between the resources allocated to

<sup>38</sup> While the British ran the Civil Service and set up large engineering public works (e.g. Aswan Dam), the Greeks became influential in the cotton industry and agro-business. The Italian community was the second largest group after the Greeks. They were prominent in the architectural field and the hotel industry. Numerically the French community ranked third. The Suez Canal and many public utilities were established by the French. The Syrians built the soap industry and were active in trade, newspaper publishing and the arts.

The foreign community in Egypt established their own banks (e.g. *National Bank of Egypt* by the British, *Land Bank* by the Greeks, *Mossier Bank* by Italian Jews and *Credit Lyonnais* by the French). Only one Egyptian bank, *Bank Misr*, was established. It practically faced bankruptcy due to the lack of support for its industrial activities by the British financial authorities in Egypt.

<sup>39</sup> In Korea, education at the elementary stage was made attractive by providing free tuition and textbooks, Government of Chosen, Annual Report 1927/28, p. 78, Keijo (Seoul).



Sources: Annual Reports, Government of Chosen, Keijo (Seoul) and Egyptian Government Annual Statistical Reports, Cairo, Egypt (In Arabic).

**FIGURE 2**

GOVERNMENT EXPENDITURE ON EDUCATION IN EGYPT AND KOREA  
(CENTRAL AND LOCAL GOVERNMENTS): 1911-1938

education must be considered an important factor in affecting the quality of human capital in the two countries.

Being excluded from the modern private sector, there was no opportunity for Egyptian entrepreneurial talent to take root. Furthermore, because the Egyptian economy did not experience industrial change, agriculture remained the main source of employment for the majority of the Egyptians. For the few educated ones, low-level government jobs provided the main source of employment during the colonial period. Even after Egypt won its independence, there was a clear preference for employment in the public sector. This was not the case in Korea where the country achieved significant structural changes in its economy and the indigenous population enjoyed close interactions with the Japanese who had an extensive presence in practically every layer of the Korean economy.

Save for a few Chinese in Korea, the foreigners were practically all Japanese. The effect of the foreign presence on entrepreneurship in



Korea was dramatically different compared with Egypt for the following reasons: (1) the Korean economy went through a successful industrial transformation<sup>40</sup> (e.g. light industry in the 1920's and heavy industry in the 1930's). Consequently, it was possible for many Koreans in the urban areas to graduate from working in petty services and trade to focusing on certain light industries (e.g. food stuffs) and even some large enterprises (e.g. textiles and banking); (2) the government encouraged the use of Japanese, the language of business in Korea, which made it easier to interact with the Japanese business community, both in Korea and in Japan; and (3) the Japanese were not clustered in any one urban area — they were much more dispersed throughout Korea.

Table 5 shows that during the period when Japan focused on enhancing the light industry, there was a rapid increase in the number of factories, as well as a substantial increase in the amount of capital invested (Table 5). More importantly, while the number of Japanese employees remained almost constant between 1921 and 1927, Korean employment almost doubled. This points not only to an increase in the quantity of Korean workers, but also to an improvement in the quality of human capital in the country. Such increase in quality was possible because of the higher amount of capital per worker and the transfer of technology that took place between the Japanese and Koreans in the industrial sector.<sup>41</sup>

<sup>40</sup> According to a Korean scholar, "the new corporation law in 1920 made it easier to set up corporations by making registration the only requirement, instead of acquiring permission from the government. This had beneficial effects on the rise of Korean entrepreneurship" because of the new laws "many Koreans, including landlords, responding favorably and began to expand their investment. By 1922, for instance, there emerged 20 banks owned by Koreans, some of which had as little as 50,000 yen capital. The incorporation movement gained momentum in 1923, and by 1927 the number of Korean-owned companies increased to 213 with nearly 25 million yen of paid-up capital. The industrial firms which emerged during this period, however, were mostly small scale firms working on local materials such as firecrackers, mats lacquer-ware, bamboo ware, willow ware, straw ware, and the like.

The decisive change in Japanese industrial policy in Korea came in the last stage just prior to the establishment of Manchuko in 1933. At times, the Governor General efforts in providing all sorts of liberal accommodations to encourage investment were criticized for 'breaking ... regulations.' Due to this expansionary policy, Korean investment rose significantly after 1931. By 1940, investment at cost is estimated to have reached the 400 million yen level." *Korea Journal*, March 19, 1977, p. 14.

<sup>41</sup> During the 1920s, the seeds of large modern factories were planted. Modern factories, defined as having capital of over Kyen 1 million, were introduced in

**TABLE 5**  
KOREAN FACTORIES NUMBER, CAPITAL, EMPLOYEES

	1911	1921	1927
Number of factories	252	2,384	4,914
Capital (Kyen 1,000)	10,614	179,143	542,646
Number of employees:	14,575	49,302	89,142
Japanese	2,136	6,330	6,163
Korean	12,180	40,418	78,347
Foreigners	259	2,554	4,632

Source: Dennis McNamara, *The Colonial Origins of Korean Enterprise* (1990).

Given the organic relationship in the Japanese model of development between the state and the large business enterprise, it is not surprising that in Korea large-scale firms also prospered in the bosom of the (colonial) state.<sup>42</sup> One of the most important vehicles for the government to obtain business information and monitor business activities was to establish “governmentalized” professional business organizations.<sup>43</sup>

The Keijo Chamber of Commerce and Industry was an important institution that had both Korean and Japanese members. The chamber was instrumental in helping state-led industrialization efforts both in Korea and Manchuria. The Governor-General supported Korean firms by providing direct subsidies and investment guarantees. The Industrial Bank of Korea was under the direct administrative control of the Governor-General.<sup>44</sup> In order to attract the giant *zaibatsu* to invest in Korea, investment guarantees, as well as monopoly rights, were also provided.<sup>45</sup>

Egypt also had chambers of commerce but most of the members were non-natives. For example, the Alexandria Commercial Union had only two Egyptian members.<sup>46</sup> The Egyptian business community had very

Korea. There were 10 to 15 of these factories until 1927, with an average capital per factory of K yen 8,283,000. These factories were characterized by: large-scale operations, the use of modern technology and capital-intensive methods of production, the distribution of output to foreign as well as to domestic markets, Japanese ownership, and their close relationship to the modern industries of Japan.

<sup>42</sup> McNamara, Dennis L. (1990).

<sup>43</sup> Ishida Takeshi (1968), cited in Dennis L. McNamara, *op. cit.* 1990.

<sup>44</sup> Daniel Sungil Juhn (1965 p. 174).

<sup>45</sup> For example, in 1917, on five million yen capital invested by a few Japanese in the first modern textile company, the Governor-general *guaranteed* a 7% annual return until 1922 and also provided an annual operating 200,000 yen subsidy until 1930. Daniel Sungil Juhn, *op. cit.*, pp. 179, 180.

little interaction with non-Egyptian entrepreneurs. Consequently, the "learning" effect was minimal at best. In contrast, the Korean membership of the Keijo Chamber of Commerce and Industry reached about half of the total membership of 1300 by 1931. Total membership reached 5000 by 1940.<sup>47</sup> This statistic is a good measure of business activities. Even though the top positions at the Korean Chamber of Commerce and Industry were monopolized by the Japanese, the fact remains that the large number of Korean membership in the organization had allowed top Korean businessmen to interact with their Japanese counterparts, many of whom were representatives of the large Japanese *zaibatsu*.<sup>48</sup> The interaction between the two groups benefited the Korean entrepreneurs, into important aspects. First, it instilled in them the *shokon seishin* "business spirit."<sup>49</sup> Secondly, it taught them the intricacies of dealing with the developmental-state.

#### D. Inculcation of Modern Values

When it comes to the Middle East, the dominant thought in the West blames its failure to modernize on the absence of democratic institutions and the lack of religious reforms. This is an oversimplification.

In contrast to a turbulent Middle East, East Asia, on the other hand, is considered an oasis of political stability and economic dynamism. In general, most writings have nothing but praise for its spectacular economic growth. Many scholars credit the region's dynamic economic performance to the presence of Confucian values. This is a sea change from past views that considered these very values a major barrier to development.

A better understanding of the process of modernization in both countries should consider the effect of colonial presence on Egyptian and

<sup>46</sup> Taher Abdul Hakim (1986).

<sup>47</sup> McNamara, *op. cit.*, 1991, p. 5. This was opposite of what took place in Egypt where the central bank refused in the late 1930's to provide financial assistance to the nascent industrial enterprises carried out by Bank Misr. This bank, founded by the dynamic Egyptian entrepreneur, Tallat Harb, was the only Egyptian-owned bank. In contrast, as seen before (p. 24, footnote 41), Koreans owned twenty banks in 1922.

<sup>48</sup> According to the Inefficient Market theory, prices in developing nations do not reflect all available information. Activities such as meetings at the chambers of commerce, industrial fairs and interacting with government officials, increases the flow of information among market participants. Collecting, examining and exchanging information helps in reducing market failure.

<sup>49</sup> McNamara, *op. cit.*, 1991, p. 6.

Korean values. One of the major differences between British and Japanese colonial policies in Egypt and Korea was that the former strengthened the position of the feudal classes while the latter weakened their hold on the population. The landed class, along with the foreign minority, carried out a lavish lifestyle.<sup>50</sup> Furthermore, the interaction between the foreign community in Egypt and the indigenous elite was practically devoid of any meaningful transfer of modern skills. Korea, on the other hand lacked a privileged foreign-minority that carried out European-like lifestyles. The general asceticism of the Japanese presence was deeply felt throughout the Korean peninsula. The outcome could not be more different in the two colonies. In Egypt, a consumption-oriented society developed rapidly in contrast to an investment-oriented one in Korea. Thus, it could be stated that the foreign presence in Egypt resulted in the creation of external diseconomies, with the opposite being true in Korea.

One of the early colonial reforms in Korea was the destruction of the old privileges of the parasitic *Yangban* class. In reining in this class, the colonial administrative culture in Korea was definitely influenced by the abolition of the feudal class that occurred in Japan during the early Meiji period. The traditional *Yangban* class disdained labor and it "knew nothing of business."<sup>51</sup> As the *Yangban* class' influence declined, many of the members channeled their energies into productive modern jobs, such as banking.

It is unfair, however, to blame the behavior of the colonial British officials as being the major factor<sup>52</sup> responsible for introducing lavish style of living.<sup>53</sup> If anything, compared with other privileged groups in

<sup>50</sup> Lord Cromer, the first British Pro-Consul, described 19<sup>th</sup> century Egypt as a happy hunting ground for the Turkish Pashas and Levantine adventurers. They ran the country on a "purely arbitrary and personal fashion," H.D. Traill (1897, p. 207). During the British stay in the country, this group continued to behave in the same old ways.

<sup>51</sup> Hulbert, *The Passing of Korea*, Ladd, p. 291.

<sup>52</sup> Regarding the British ethos during the country's industrial spurt, it was noted that in England "The absence, during Industrial Revolution of wide social approval for ... conspicuous consumption as characterized, for example, the Renaissance prince, the eighteenth-century British landowner and Post-Revolutionary America is too marked to be altogether ignored." S. Pollard, "Investment, Consumption, and the Industrial Revolution," *The Economic History Review* (1958).

<sup>53</sup> The aristocratic squandering continued well into the 20<sup>th</sup> century. The following statement describes the behavior of the traditional elite in Egypt, still well entrenched in the society fifty-seven years after the British occupation,

Egypt, the British were people of relative moderate tastes.<sup>54</sup> Yet, the fact remains that huge income disparity that existed between the few rich and the rest of the population would have been considered anathema in colonial Korea.<sup>55</sup>

The Japanese, in general, led a simple life in the colony. This was concordant with the austere type of life promulgated by the colonial administrators, many of whom were heirs of the Samurai tradition. There were certainly no pampered classes in Korea.<sup>56</sup> Under the Japanese, Koreans had acquired certain sober industrious habits (e.g. praise for asceticism, frugality, lack of idleness, discipline, hard work, perseverance) that would have made Max Weber proud. These types of external economies were missing in colonial Egypt. Egyptians, both upper and middle classes, tried to imitate the foreigner's lifestyle; with detrimental effects on savings. Such demonstration effect kept its grasp on Egyptian society throughout the post-independence era.

"(with the) coming of the Europeans this (feudal elite) class has acquired the superficialities of French culture. There are the *Louis XV* furniture, the *Beauvais* tapestries, the Sevres of *Vieux Rouen*, but the coordinating taste is lacking, and above all there is not the feeling of intellectual responsibility, of the necessity of thought (There) is a lack of relevant tradition and of any conception of social responsibility. Out of touch with the *fellah* (the Egyptian farmer) and with the social intellectual problems of the time, as a class the Pasha lacks the habit of altruistic or constructive thought. His contempt of the *fellah* his vast meals, gilt-drawing-rooms, and way of life, are more reminiscent of the 19<sup>th</sup> century than the present. The dinner of nineteen dishes and eight entrees provides a fantastic contrast with the dinner of the majority of the people who are lucky to get meat once a week. Probably nowhere in the world is the contrast between extreme wealth and poverty so striking." Robin Fedden, *The Land of Egypt* (1939).

<sup>54</sup> After his 1902 visit to England, the noted Japanese Meiji leader, Matsukata Masayoshi, admired the refined and well-mannered upper-class British women, who were different than "some foreign women ... known for their wild and extravagant taste." Haru Matsukata Reischauer, *Samurai and Silk* (1986, p. 136).

<sup>55</sup> One example of the extreme level of wealth enjoyed by a large number of members in the foreign community was that of a rich Greek cotton merchant in Alexandria who, single-handedly, underwrote the whole expense of the 1896 Olympics in Greece.

The corruption influence of the western presence in Egypt validates what Nurkse called the "international Duesenberry" demonstration effect. This effect induces the citizens of developing nations to ape the extravagant consumption standards of the West. R. Nurkse, *Problems of Capital Formation in Under-Developing Countries* (1953, pp. 58-70).

<sup>56</sup> It is clear that in Korea, as in other Japanese colonies, the presence of the Japanese made the international Duesenberry effect applied in *reverse* to Nurkse original definition.

### III. The Post-Independence Military Era

The comparison of quality changes in the factors of production in the post-independence era will solely concentrate on the policies of the two most influential military leaders in the two countries during the second half of the twentieth century: Colonel Gamal Abdel Nasser of Egypt and General Park Chung Hee of Korea. Both Nasser and Park stayed in the office as the undisputed leaders of their countries for almost two decades. The former from 1954-1970, and the latter from 1961-1979. One major difference between Park and Nasser was that the first was a leader of a strong government,<sup>57</sup> and the second, a soft one.

Park was the architect of the Han River miracle. There was no equivalent miracle on the banks of the Nile River. The rise of the post-colonial modern Korean economy is, to a large degree, a result of the efforts of Park to establish the *chaebols* — a variation of pre-1945 Japanese industrial groupings, *zaibatsu*. In that sense, Korean leadership had a concrete model to emulate.<sup>58</sup> Park as an intelligence officer in the Japanese army in Manchuria had the opportunity to witness, first-hand, how the colonial army officers and the Japanese bureaucrats in northern China, had charted out industrial policies.<sup>59</sup> At the heart of these policies was

<sup>57</sup> General Park inherited a weak government. He singlehandedly transformed it into a strong one.

<sup>58</sup> In order to galvanize public opinion behind his objective of rapid modernization of the Korean economy, Park did not hesitate to use the pre-1945 mass mobilization techniques. One important reason behind the success of Park's rural development program (*Saemaul* Movement) was "the wide use of mass media including radio, TV, newspaper and magazines ... The mass media also helped raise concerns and motivate the citizens ... symbols such as flag and slogan were found everywhere ... Education was implemented for the people to be enlightened *spiritually* ... (rural) leadership (was) highly *devoted* to the movement without any salary or (material) rewards ... They (were) true patriots." Sang Ho Choi, *op. cit.*, p. 52.

Many of the rural institutions introduced by Japan during the colonial period, were also resurrected. In 1997, the Korean Agricultural Cooperative College introduced successful programs to train the farmers on the operations of new machines and computers but also to enhance the *work ethics*. During the period 1970-2001, nominal income of farm household increased 7.4 times. Sang Ho Choi, *op. cit.*, p. 62.

<sup>59</sup> According to a seasoned authority, "Manchuria was also an arena of opportunity for Koreans, ... as the Chosen Business Club knew when it held a celebration of the new Manchukuo regime in Seoul in May 1932, with many important *Korean business leaders* attending. Manchukuo was a frontier of Korean rice farmers, bureaucrats, soldiers and businessmen ... Koreans also

an incentive system created to attract the *zaibatsu* to invest in China.<sup>60</sup>

The economic thinking of Nasser of Egypt was strongly influenced by two major factors. First, during the 1950's, the mistrust of foreign capital and the desire for self-reliance were quite in vogue among the leaders of newly independent non-aligned nations in Asia and Africa.<sup>61</sup> Secondly, the country's own legacy of foreign exploitation. These are the reasons behind the young Egyptian leader looking askance at the foreign-dominated private sector in Egypt. Unlike Park, Nasser did not have the advantage of overseas experience. Neither did he have the exposure to industrial policymaking that the Korean leader had witnessed in Manchuria.

Internally, Park was the leader of a strong government, and had the unquestionable loyalty of the army. Secure in his position, he was able to implement unpopular decisions that in the long run were beneficial to the Korean economy.<sup>62</sup> These decisions included signing a peace

served in the Japanese police and military organizations ... as did many of the *most important civil servants in post South Korea*," Bruce Cummings, *Korea's Place In The Sun*, Norton, 1997, p. 169 (Italics added).

During Syngman Lee's administration (1948-1960), 83 percent of 115 Cabinet ministers were trained under the Japanese. Many Koreans who studied at the colonial Keijo Imperial University or Japanese imperial universities were the elite bureaucrats that helped Park propel the country to the ranks of developed nations. The foundation of contemporary Korean education is but a carbon copy of its Japanese counterpart. A distinguished Korean educator, H. N. Lee was an alumnus of Keijo Imperial University, he later became the president of Seoul University of which Keijo was the precursor. Jeong-Kyu Lee (2002).

<sup>60</sup> Prasenjit Duara, *Sovereignty and Authenticity: Manchukuo and the East Asian Modern*, Rowman and Littlefield, 2003.

<sup>61</sup> These sentiments were clearly enunciated in the pronouncements of non-aligned conferences (e.g. Bandung 1955).

<sup>62</sup> The ability of top leadership to adopt modernizing policies that might not be in tune with the public mood at the time is a hallmark of successful modernizers. Deng of China in the 1970s, like Park of S. Korea in 1960s, were able to establish friendly relationship with Japan in spite of resistance from some powerful quarters. Success in these endeavors required the strong support of the army. Like Park, Deng was supported by the Peoples Liberation Army, which made it possible for him to strengthen economic and political ties with Tokyo. Deng's personal visits to Japan convinced him of the necessity to change China's economic course.

According to his biography, "It was when Deng visited Japan and saw the technological marvel that the Japanese had. He realized how far behind technological and economically China was while he wrote on the hi-tech bullet train. After his return to China Deng would abandoned many orthodox communist doctrines and attempt to incorporate elements of the free-enterprise system into the Chinese economy. The changes that would take place could be called the

treaty with Japan and keeping the lid on the wages of the industrial workers. The treaty with Tokyo encouraged foreign direct investments and technology transfers. Wage controls ensured the country's competitiveness in the global market. Park was also fortunate to benefit from the geopolitical situation in Northeast Asia. Washington supported S. Korea as a bulwark against communism in that part of the world. Park, however, was careful not to fan the flames of uniting the two Koreas, as this would have distracted from his main goal, making S. Korea an export-oriented economy.<sup>63</sup> There was no doubt that in making exports a top priority, he was following the successful Japanese model.

The case of Egypt was diametrically opposite to that of Korea. Nasser fought in Palestine against Israel. The humiliation of defeat in the late 1940's infused him with nationalistic fervor. Once in power, he became the champion of Arab unity in the Middle East. These political objectives did not make Egypt wind up in the same geostrategic boat with the US. Furthermore, having no economic experience, and not used to tolerating disagreements, Nasser underestimated the function of the private sector to act as an engine of growth. In the 1950s, the socialist camp was riding high. For many third-world countries, planning along the Soviet model seemed an effective tool for rapid industrialization. As seen before, Nasser looked upon the foreign dominated, private sector with suspicion. Fearing that the leaders of the private sector might not be loyal to him, he branded them as exploiters of the masses.

Another potential threat came from the Egyptian army. The army was under the control of Abdel-Hakim Amer, an inept general who was one time close friend of Nasser. Yet the increased popularity of Amer among the army ranks had contributed to the president's insecurity. In general, most of Nasser's time was devoted to worrying about external and internal threats, real or imaginary. The country became a police state with various intelligence organizations, representing different power centers, each keeping an eye on the other. This resulted in making economic priorities somewhat low on his agenda.

true great leap forward for China. Under his leadership, China acquired a rapidly growing economy, rising standards of living, considerably expanded freedom, and growing ties to the world economy." *The Life Of Deng Xiaoping*, [http://nths.newtrier.k12.il.us/academics/faculty/kessel/cultural\\_revolution/dengxiaoping/Deng.htm](http://nths.newtrier.k12.il.us/academics/faculty/kessel/cultural_revolution/dengxiaoping/Deng.htm).

<sup>63</sup> One leadership quality that is noticeable in the behavior of the leaders of successful modernizations in developing countries is their sustained personal commitment to the cause of economic growth.



Nasser's suspicion of the private sector culminated in 1961 with his nationalization of most enterprises in that sector. This had the effect of solidifying the regime's political support base, as top jobs became the preserve for ex-army officers. With loyalists being in control of key positions in the economy, the threat of an anti-Nasser coup was minimized. In this type of environment the ability of the top managers to keep their jobs was based on professing loyalty to the top political leadership, rather than economic performance.

In analyzing the Park policies, special attention must be paid to two kinds of Japanese colonial legacies. The first is that industrial policies needed to create an export-oriented system were essentially copied from the Japanese model.

The second relates to the external economies and diseconomies associated with the country's colonial past. As seen before, certain external economies were a result of Koreans adopting the positive influences of living side-by-side with the Japanese. These included hard work, frugality, and most importantly self-confidence in their ability to match the colonial masters behavior and actions in many areas. Though not easy to quantify, being confident in managing their own affairs in a modern society must be considered a positive factor that later was instrumental in pushing post-independence modernization.

On the other hand, there were the external diseconomies of the Japanese occupation. Resentment of foreign troops and Tokyo's attempts to eradicate Korean identity caused substantial amount of bitterness. After independence, these very same factors fired the Koreans with the determination to catch up with their Japanese neighbors and reaffirm their own identity. Thus, what used to be external diseconomies during the occupation were transformed into external economies after independence.

In Egypt, the inculcation of modern values in society at large was at a much lower level than in Korea. The foreign presence in Egypt resulted in a decidedly low level of positive demonstration effect. This was due to the foreigners monopolizing the private sector. Thus the Egyptians did not develop the necessary modern business skills which reflected negatively on post-independent economic growth.

One positive aspect of Nasser's policies was the improvement in the areas of education and health, with the government providing these services to large segments of the society that previously did not have access to them.<sup>64</sup> As such, there was a definite improvement in the

<sup>64</sup>In 2012, access to health services and safe water in Egypt were 96% and

quality of human capital. Yet, in comparison with S. Korea, the resources were not allocated efficiently. For example, in the Korean case, there was a continuation of the Japanese policy of emphasizing elementary education.<sup>65</sup> The quality of Korea labor improved substantially since the 1960s due to the explosion of secondly education, especially at the vocational level.<sup>66</sup> This was not true for Egypt, where most resources were devoted to higher education.<sup>67</sup> This resulted in a neglect of elementary education which economists now consider a prerequisite for successful modernization.<sup>68</sup>

The Egyptian economy was nothing like its S. Korean counterpart. Since the Japanese occupation in Korea, economic incentives in the country were deeply rooted in the private sector. In contrast, the 1961 socialist measures introduced by Nasser did not leave much room for the private sector. Furthermore, his socialist policies of guaranteeing government employment to all high school and university graduates eventually led to the prevalence of disguised unemployment that considerably weakened the economy.

On the political front, as a result of Cairo's military support of an anti-monarch new government in Yemen, Egypt got mired into a desert war (1962-67). The country also suffered a defeat in the 1967 war with Israel. One important consequence of the 1973 liberation war, launched by Sadat, was the signing of peace treaty with Israel in 1979.

In the post 1961 Korea, the country launched the intensive modern-

99% respectively. In Korea the corresponding ratios were 100% and 98% (Available at: <http://apps.who.int/gho/data/node.main.46>). In 2013, life expectancy rose to 79.5 years in S.Korea and 73.2 years in Egypt (Available at: [http://en.wikipedia.org/wiki/List\\_of\\_countries\\_by\\_life\\_expectancy](http://en.wikipedia.org/wiki/List_of_countries_by_life_expectancy)).

<sup>65</sup> Unlike the Japanese, however, the Koreans put a premium on obtaining advanced graduate degrees. Many top Korean bureaucrats obtained Ph.D. degrees from first-class American schools.

<sup>66</sup> For an evaluation of the modern Korean educational system, see Sunku Hahn, Tae-Hwan Kim, Boyoung Seo (2014).

<sup>67</sup> In Egypt, the increase in the supply of university graduates was a result of government acquiescence to the pressure emanating from the middle class for higher education. In Korea, it was the export-oriented policies that boosted the demand for university graduates.

<sup>68</sup> Sen observes that in India "there is ... a deep complementarity between reducing on the one hand, the over activity of the state and running a 'License Raj,' and, on the other, removing the under activity of the state in the continuing neglect of elementary education ... (with close to half the adult Indians still illiterate and quite unable to participate in an increasingly globalized economy)" Amartya Sen, *Development as Freedom*, Alfred A. Knopf, 1999, p. 127.

ization policy under the strong leadership of Park.<sup>69</sup> The quality of human capital in Korea rose rapidly. One major reason was the transfer of Japanese technology. The rapid transfer of technology was due to both political and economic reasons. The first was the establishment of diplomatic ties between Tokyo and Seoul in 1965 and the second was the increase in the price of labor in Japan. Many Japanese factories moved their production facilities to S. Korea in the early 1960s. Other than geographic proximity, one incentive for Japanese investment was the large number of relatively skilled Korean workers and engineers, trained by the Japanese in the colonial years, many of whom were already fluent in Japanese.

#### IV. Modernization Prerequisites

The Egyptian-Korean comparison contributes to our understanding of the process of economic development by showing that two of the most important requirements of modernization are: First, an *external* condition related to the crucial role that global and regional powers play in paving the way to smooth modernization of the developing country or hampering it. The second is an *internal* condition related to the importance of strong government to successful economic policy making. This is particularly during the early stages of industrialization.

##### A. The external environment

The neoclassical economic theory has not paid any attention to the asymmetrical relationship between the developing nations and the more powerful political entities. This neglects results in make it extremely difficult for the students of economic development to carry out objective comparisons when evaluating the experiences of developing countries. The standard econometric studies in development tend to find correlations of a large pool of different nations without paying the slightest attention to their interaction with larger powers.

Development does not take place in a frictionless world. As a nation takes the first hesitant steps towards modernization, it has no alternative but to interact with considerably more powerful countries. The nature

<sup>69</sup> Commenting on the Korean situation, Choi, observes "we can conclude that a successful ... national development mainly depends on excellent political leadership with a *strong* willingness and determination to develop the country." Sang Ho Choi, *op. cit.*, p. 56.

of this interaction is of crucial significance in determining whether modernization will be successful or not. Thus, unless the larger great and regional economic powers give the developing nation the 'green' light, its ability to modernize will be greatly compromised.

Korea and Egypt are a case in point. Korea was colonized by a regional power, Japan, and (S) Korea was liberated by a superpower, the U.S. For their own interests, both Tokyo and Washington were keen on pushing economic reforms,<sup>70</sup> hence they gave Korea the 'green' light to proceed.

The situation was not that smooth for Egypt, which due to historical accidents faced a 'red' light *both* before and after independence. In the 19<sup>th</sup> century, the European powers aborted the country's nascent modernization attempts under Mohamed Ali and Khedive Ismail. After 1882, the British colonizers did not wholeheartedly press for needed reforms. In the post-1945 era, Egypt became engaged in various military conflicts, both with a regional power (Israel in 1948, 1956, 1967, 1973) and great powers (England and France in 1956). These conflicts did not help the country to participate fully in the global trading system.<sup>71</sup>

### *B. The internal environment*

On the internal front, successful modernization requires the presence of a forward-looking government; one capable of suppressing the influences of the feudal class and effectively carrying out investment-oriented policies in an open-trade system. It is crucial to have a strong government where there is not a wide gap between policy formulation and policy implementation. Failed attempts at modernization are characterized by the presence of soft governments, many of which were corrupt and/or incapable of standing up to populist demands. What they have in common is inability to create the right type of economic incentives necessary for the transformation of a traditional society to that of a modern one.

<sup>70</sup> In a 2008 personal conversation of the author with the Nobel Laureate English economist Professor Coase with regard to British colonialism in Egypt, he regretfully remarked that "The British did not want to do anything!"

<sup>71</sup> Unlike Korea, which after 1961 was able to carry out an export-oriented policy with a friendly West, Egypt followed an import-substitution policy that negatively affected the country's economic growth. Most of its trade was diverted to the Eastern bloc until the mid-1970's.

## V. Conclusion

In addressing the colonial legacies in Egypt and Korea, it seems that the British in Egypt did not contribute much to improving the quality of the country's factors of production. Furthermore, because of the nature of their own *laissez-faire* economy, British colonial administrative traditions did not leave many guiding economic principles that could have served post-independence leadership in Egypt.

The Japanese economic imprint on Korea, on the other hand, has had lasting effects on the country to this very day. Japan, practicing guided capitalism, was the first nation to adapt the Western method of modernization to Asian conditions.<sup>72</sup> Korea, awakened of its slumber, was a major beneficiary of this adaptation. This must be one of the important explanatory factors behind the present superior quality of its factors of production. In contrast, Egypt, a country that had a better quality of inputs than Korea at the beginning of the twentieth century, is still struggling to attain modernization.

This leads us to a discussion of the importance of democratic institutions. While acknowledging that democratic systems in old industrial nations had provided respectable economic performances, democratic institutions in most East Asian nations are a recent phenomenon. They only have taken hold after economic modernization became a reality. Thus, in East Asia, democracy has not been a prerequisite for modernization. In most cases it tends to be an *outcome* of modernization itself.

In general, the East Asia experience points to the presence of two conditions that should be met before the democratic ideal is attained. First, achieving a per capita income threshold, and, secondly, a high rate of literacy.<sup>73</sup> Both conditions are conspicuously missing in most

<sup>72</sup> Many successful third world countries, who carried out market-oriented policies (e.g. Deng Xiaoping of China, Lee Kwan Yew of Singapore, Mahathir Mohamed of Malaysia), had an intimate familiarity with how advanced industrial societies operated. This is usually a result of keen observations formed through living abroad during their youth and traveling extensively in their official capacity. For example, Deng lived in 1920s Paris, visited Japan in 1978 and 1979, right before announcing the open door policy, he visited the US in the early 1980s. Lee Kwan Yew studied law at Cambridge in the 1940s and Mahathir Mohamed has been well known for his frequent travels, especially to Japan. These travels led the Malaysian leader to adopt the 'Look East' policy.

<sup>73</sup> For example, the first free elections in Korea were held in 1988 when by that time, the country achieved a per capita GNP of \$ 4,040, and a literacy rate close to 100%.

Middle Eastern nations.<sup>74</sup> In the meantime, a closer analysis regarding the role of religion in development would clearly show that once development occurs, religion ceases to be an overarching way of life. Experience in the Christian West, and the Confucian East, as well as Islamic Indonesia and Malaysia, clearly indicate that in these societies where development was successful, religion tends to become for most people, a simple matter of personal relationship between man and the Divine.

With their repressive colonial past behind them, both Egypt and (S) Korea are now part of the free world. Regarding the development of democratic institutions, freedom of expression, and human rights, it is clear that in recent years (S) Korea has enjoyed a better record than Egypt. It is extremely doubtful that the East Asian country could have enjoyed these civil liberties were it not for the fast rise in its per capita income. One factor that was vital in the rapid modernization of Korean society was the presence of strong governments,<sup>75</sup> before and after independence. These governments made economic modernization top priority. This was not the case in Egypt.

### **Future work**

Anglo-Saxon economics, *a la Schumpeter*, tends to overemphasize the importance of entrepreneurial activities.<sup>76</sup> It also ignores the role that

<sup>74</sup> According to the Arab Human Development Report 2002, UNDP, the GDP of all the Arab nations *combined*, excluding oil, was less than that of Spain. Equally worrying, the number of books published in these nations, with an estimated population of 220 million, was less than that of Greece which had a population of less than 11 million. Merely 1.2% of the Arab population has access to a personal computer and only half of that number use the internet. In the year 2025, the population of the Arab nations is expected to reach 400 million.

<sup>75</sup> An analysis of the evolution of the modern Korean society must take into account the important role-played by the United States in pushing the cause of freedom in Korea. Before 1945, The sympathies of the American missionaries lied with the nationalists. After the liberation, the U.S. had a dominant role in preventing S. Korea from falling prey to communism. Washington built a professional army, some of whose officers went on to become pioneers in the modernization efforts during Park's regime. Furthermore, the high quality of most top Korean planners is due to the superior education received in the US during their graduate years. It should be kept in mind, however, that the creation of a viable multiparty system and the rise of truly democratic institutions in S. Korea were mainly due to grass-root movements on the part of students, workers, and most importantly, an expanding middle class.

great and regional powers play in facilitating or hampering the process of industrialization. Fortunately, East Asia's economic success has led to valuable writings, mostly by Asian scholars, that explain the vital role of government in promoting industrialization. Future work on the political economy of development should pay more attention to the difference in the bargaining power between the developed and developing nations.

(Received 12 January 2014; Revised 5 July 2014; Accepted 9 July 2014)

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<sup>76</sup> See Keun Lee, *Schumpeterian Analysis of Economic Catch-Up*, Cambridge University Press, 2013, and Joshua Ramo, "Beijing Consensus," *Foreign Policy Center*, London, 2004.

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